



SOCIETY OF ACTUARIES

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Critical Illness

The Next Great Worksite Sale

by Patrick D. Lusk

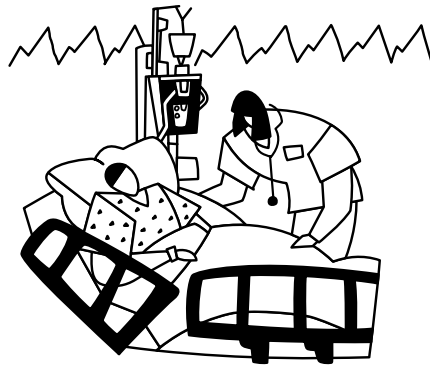
Author's Note: The following article, adapted with permission from an August 31, 1998, National Underwriter article, emphasizes that Critical Illness insurance is potentially the next great worksite product. This knowledge must be tempered by the fact the worksite market is not easy terrain. Any carrier seeking to market insurance products through this channel must clear at least four major hurdles:

- The company must understand that the worksite is a niche market that demands long term focus.
- The company must be prepared to spend money to create the required home office systems and trained service personnel.
- The company must be ready to think differently about risk management. The worksite product is not a true group insurance or a true individual insurance, but a middle ground that demands new ways of thinking about underwriting.
- Finally, the company must appreciate the challenges of enrollment — a capability not required in either true group or individual markets but one that no worksite initiative can succeed without.

The following account of Critical Illness product potential assumes a strong focus on the worksite market and the specific capabilities that come with that focus.

Products that meet distinct needs and are easy for sales professionals to explain invariably do better at the worksite. Among new arrivals on the scene, Critical Illness insurance best fits those standards.

Critical Illness has been a successful product for a number of years in the United Kingdom, South Africa and Australia. In these markets, it is usually an individual sale — similar in some ways to a “kitchen table” sale of individual life in the United States. The customer often has coverage in other areas,



like health and life insurance. They use Critical Illness as a living benefit. It's a bridge to adapt to life challenges during and after a health crisis. They might need adaptive equipment, money to fill an income or retirement savings gap, or help with travel expenses related to treatment. Each person's situation is different. The essential need that registers with people and makes sense to them is that the lump sum payment of a Critical Illness product is going to help them get from point A to point B during a period of health crisis and recovery.

However, there is an even more basic reason why insurance to answer this need is emerging now — more people are surviving critical illnesses. About every 20 seconds, an American suffers a heart attack. We also know that stroke is the leading cause of serious long-term disability. Medical advances have improved chances for survival and quality of life for those who suffer critical illnesses. But, as more people live longer and live through critical medical events, they need financial survival tools, too. Those who are prone to save for rainy days appreciate that these kinds of events are typhoons, requiring insurance.

The word “independence” best sums up the other driver of need here. Most people have a powerful desire to be financially independent, and serious illness is usually the single most serious threat to this status. When we have surveyed consumers about Critical Illness insurance, 59% of those who had experience seeing a friend or relative go through a critical illness characterized themselves as likely or very likely to buy Critical Illness insurance. It turns out that 44 percent of those who did not have direct experience also said they were likely or very likely buyers.

There also is ample evidence that the worksite is a sensible place to deliver this product. We know from a number of different surveys that Americans look to the workplace as a source for benefits and information about benefits. Among the most likely buyers of Critical Illness products are people in low- and middle-income brackets who rely on the workplace as a benefits resource. For example, two-thirds of those in the \$15,000 to \$25,000 income bracket characterized themselves as likely or very likely buyers of Critical Illness insurance. About half of those in the \$25,000 to \$35,000 bracket said they were likely or very likely buyers.

Stand Alone and Simple

Stand Alone Critical Illness products are a good fit with workplace sale dynamics. The product, the need it answers and the fundamental terms can be explained in a short amount of time. What does this insurance do? It provides lump sum benefits for specific illnesses such as heart attack, stroke, cancer, major organ transplant and end stage kidney failure, among others. Buyers decide how much coverage to get. Benefits are paid to the insured, unless otherwise specified.

In many respects, it is like a life insurance sale, except the benefit applies to circumstances the policyholder could face personally during their lifetime. Like life insurance, it's easy to tailor to a wide range of financial profiles. The face amount easily adapts to personal budget and need, and it's easy to explain how higher face amounts result in higher premium.

continued on page 18, column 1

Critical Illness

continued from page 17

Other terms and policy provisions are fairly straightforward. It's guaranteed renewable, either for life or to a specific age. Benefits are generally level, but may reduce on or after age 65. Because it's a worksite sale, rates should be unisex. There are tobacco and non-tobacco rates, but in these days that is a very familiar concept to customers.

The single biggest objection is that the product does come with a list of specified conditions. However, with greater marketing of the product, it should become more familiar to customers that these represent the conditions most likely to create financial need. In some of the overseas markets, there has been a tendency to extend covered conditions into areas that add complexity, but don't add much value for customers. I hope that tendency is avoided in the U.S. insurance

industry. Insurers can add all kinds of conditions to a product — without assuming much risk because the conditions are rare — but that does not advance meeting the core need. We know the conditions that are most likely to produce a severe financial impact and that is where the focus should remain.

The success of a related product — cancer insurance — is a good example of why focusing on fundamental need works. Holders of these policies keep them in greater numbers and are more likely to keep them even after they leave the job where they accessed the coverage. Cancer insurance also is a product where agents and carriers often hear later about the positive impact when people need the benefit. I see no reason why Critical Illness, answering a broader and related

need, will not succeed similarly at the time of sale and after the sale. The need and the opportunity to explain the need in plain terms are there.

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Eager to begin work on the 1999 activities, the Smaller Insurance Companies Section Council met at 6:45 a.m. in New York.

Standing—left to right—Paul Sulek, Rod Keefer, John Wade ('98 Chair), Jack McKee; sitting—left to right—Perry Kupferman, Lori Truelove, Chris DesRochers ('99 Chair).