

Critical Illness Presentation

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Overview – Critical Illness Insurance

- Regulatory Issues in the United States
- Producer Issues in the United States
- Trends in Other Countries

Critical Illness Insurance - Regulatory Issues in the U.S.

CII - Regulatory Issues in the U.S.

Waiting periods (14 States)

- No WP or max number of days
- First \$ cover

Return of Premium (7 states)

- No ROP
- Only pay ROP if die from non-CI cause

CII - Regulatory Issues in the U.S.

Underwriting Questions

- Can't ask have you "ever" had (KS, MN, LA)
- No family history question (LA, MD)
- No HIV question (ME)

CII - Regulatory Issues in the U.S.

Unique Requirements

- Hospital Indemnity Benefit (IA, WA)
- Newborn Coverage (MT)
- MOT Restrictions (AZ, AK)
- Cancer Restrictions (CA, FL)
- Mammogram Coverage (CA)
- Must have other health coverage (CA, NY)
- Pay benefit if “intoxicated” (MN, OK, SD, WA)

CII - Regulatory Issues in the U.S.

Loss Ratios:

- 55% (CO, NC, WV)
- 60% (FL, MD, ND, NY, WA)
- 65% (MN)

CII - Regulatory Issues in the U.S.

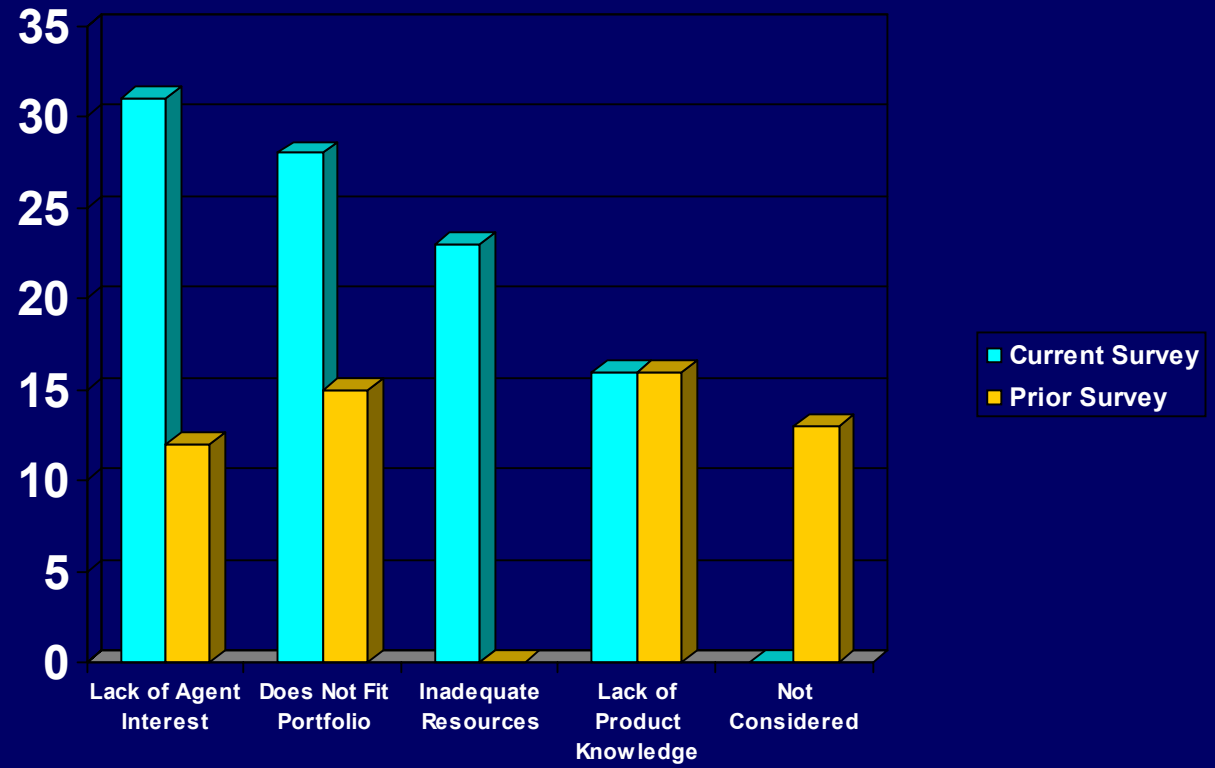
States with many requirements/difficult:

- CA, CT, FL, GA, MS, NH, NJ, NY, WA,

Critical Illness Insurance – U.S. Producer Issues

CII – U.S. Producer Issues

Top 4 Reasons Not Active in CII:



"CII in the U.S. – Results of a Market Survey", *Risk Insights*, Volume 6, Number 1, February 2002. General Cologne Re

CII – U.S. Producer Issues

Producer Resistance

- I do not understand CII
- My clients don't need CII
- I do not know how to sell CII
- CII is too expensive
- I do not have time to learn a new product
- CII will not be a mainstream product

CII – U.S. Producer Issues

How do we combat this resistance?

- Key – education
- Good product design
- Ease of underwriting
- Competitive commissions
- Your client will likely be alive after a critical illness and wondering why you didn't sell him a policy!

CII – U.S. Producer Issues

Prospects

- Existing clients
- Single people
- Those ineligible for DI
- Health care workers
- Low/middle income
- Entrepreneurs
- Homemakers
- Partnerships
- Corporate – Key Person, Buy-Sell

CII – U.S. Producer Issues

How much should the customer buy?

- To cover debt
- And to maintain lifestyle
- Rule of thumb: 1-2 times salary

CII – U.S. Producer Issues

How much does it cost?

- Depends on many factors
- Must view based on probability of getting a covered condition:
 - Every 29 seconds someone in the U.S. suffers a coronary event
 - Every 53 seconds an American suffers from a stroke
 - In the U.S. 1 in 2 men and 1 in 3 women will develop some form of cancer in their lives

CII – U.S. Producer Issues

Why is life insurance cheaper?

- In 1999, 1.27 million people were diagnosed with cancer while .5 million died from cancer
- For heart attack and stroke, the number diagnosed was 3 times the number who died
- 3.1 million were diagnosed with these three diseases while 2.4 million died from ALL causes

CII – U.S. Producer Issues

Tools to sell CII

- Open with “Who do you know”
- Testimonials
- Statistics
- Play on key motivators: greed, obligation, fear
- Pre-underwrite the case
- Work within their budget
- Target specific groups (lawyers, associations)
- Use local news articles
- Avoid “sticker shock”

CII – U.S. Producer Issues

Product Design

- Keep it simple
- Attract young buyer (paralysis, MS)
- Target certain groups (doctors – Occupational HIV)
- Product Name

CII – U.S. Producer Issues

Catch Phrases

- The cost of living is higher than the cost of dying
- Die cheap for \$100 or live with \$100,000
- Would you rather lose your home or your mortgage?
- What is your bank's lending policy for someone who has just had a heart attack, stroke or cancer?
- You can buy a lottery ticket or CII – which has the higher likelihood of paying?

CII – U.S. Producer Issues

Keys to Success

- Focus on the “freedom”
- Educate, educate, educate
- PASSION

Critical Illness Insurance – Trends in Other Countries

CII – Trends in Other Countries

Definitions:

- Based on current understanding
- Change in light of actual experience
- Difficult to forecast the impact of changes in medical science and technology on definitions

CII - Trends in Other Countries

Definitions - Multiple Sclerosis (MS)

- Currently, diagnosis with moderate neurological abnormalities for a continuous period of at least 6 months
- Pressure to simplify definition and pay on diagnosis
- Severe consequences to pricing
 - Incidence rates would double at age 30
 - Increase by 30% at age 50

CII - Trends in Other Countries

Definitions – Heart Attack

- Diagnosed on:
 - History of chest pain
 - New EKG changes
 - Elevation of cardiac enzymes
- Newest marker: Troponin
- “Micro myocardial infarction”

CII - Trends in Other Countries

Definitions – Prostate Cancer

- Lies dormant for many years with majority asymptomatic
- Exposure to risk of earlier detection and additional claims
- Australia and U.S. often exclude minor prostate cancer

CII - Trends in Other Countries

Post Mortem Study – Prevalence of Latent Prostate Cancer

| Age | Sweden | Germany |
|---------|--------|---------|
| 50 - 59 | 21% | 22% |
| 60 – 69 | 28% | 25% |
| 70 – 79 | 43% | 33% |

CII - Trends in Other Countries

Medical Advances and Reviewable Definitions

- Earlier diagnosis
- More frequent surgical procedures
- Diagnose “micro medical events”
- Genetic research

CII - Trends in Other Countries

“Due to the continuing advances in medical treatment and diagnostic techniques, we may need to review the Definitions to ensure that in the future they

- Remain appropriate with regard to medical terminology and classification
- Take into account effective cures and vaccines and modern diagnostic procedures
- Include diseases considered appropriate in the future
- Exclude diseases which are found to have become minor”

CII - Trends in Other Countries

Premium Rate Guarantees:

- Most UK insurers guarantee rates for at least 10 years
- Long term guarantees in Canada
- Do rates reflect the true cost of these guarantees?
- Are reserves adequate?
- Are guarantees needed?

CII - Trends in Other Countries

Buy-Back (Accelerated Benefits):

- Reinstatement some or all of the original death benefit after CI paid
 - After 12 months, e.g.
 - In stages over 4 years, e.g.
- Price between standard accelerated plan and life plan plus stand alone CI

Second Event CI Cover:

- Reinstated for limited list of CIs after survival for say, 12 months

CII - Trends in Other Countries

Scaled Benefits

- Benefits should reflect severity of claim event
- Less anti-selection
- Lower premiums
- Added complexity
- Marketing issues

CII - Trends in Other Countries

Scaled Benefits – South Africa

| | |
|---------------------------------------|------|
| Heart Attack | 100% |
| CABG | 60% |
| Angioplasty | 10% |
| Stroke (leading to severe disability) | 100% |
| Stroke (other) | 50% |
| Cancer - Stage 4 | 100% |
| Cancer – Stage 1 | 25% |

CII - Trends in Other Countries

Integrated Products

- CI and Medical Insurance
 - MI for acute conditions
 - CI for life-threatening and chronic conditions
- Medical Reimbursement for costs exceeding lump sum

CII - Trends in Other Countries

Integrated Products

- CI and Disability Insurance
 - Eliminates overlap
 - Pay monthly mortgage while sick or disabled
 - Pay outstanding debt on death, CI or TPD
- Reduced lump sum with income payable on continued disability

CII - Trends in Other Countries

Products targeted at females:

- Payment on diagnosis of “female cancers”
- Optional riders:
 - Childbirth
 - Complications of pregnancy
 - Congenital anomalies

CII - Trends in Other Countries

Products targeted at juveniles:

- Juvenile-specific critical illness events
- Part of packaged family health care plans

CII - Trends in Other Countries

Learn from other countries:

- Longer waiting periods
- Strong underwriting
- Solid definitions
- Avoid anti-selection
- Change language to revise coverage if no longer critical
- Cover less than 100% for some benefits