



International Actuarial Association Health Section
2007 Colloquium

13th - 16th May 2007 Cape Town, South Africa

Critical Illness – global market emerging issues

Wolfgang Droste, GenRe
Sue Elliott, Watson Wyatt Ltd
Matt Brinckmann, Watson Wyatt Ltd
Gary Mooney, Actel Resources
Peter Temple, GenRe
Andres Webersinke, GenRe

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Agenda for today

- **Moderator** – Sue Elliott
- **“Critical Illness Claims Experience in Asia”:**
 - Wolfgang Droste, GenRe
 - Andres Webersinke, GenRe
- **Panel discussion on “Global market emerging issues”:**
 - Matt Brinckmann, Watson Wyatt Ltd
 - Wolfgang Droste, GenRe
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 - Gary Mooney, Actel Resources
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“Critical Illness Claims Experience in Asia”

“Global market emerging issues”

Potential discussion topics

- Standardized definitions
- Severity based definitions
- Guaranteed vs reviewable premium rates
- Global experience investigation
- Claim delays
- Product innovation around the globe

Standardized definitions

- **Asia Pacific** – standardization in some markets such as Taiwan, Singapore and Malaysia (stricter than UK)
- **Australia** – u/k
- **Canada** – under debate
- **Ireland** – tend to follow the ABI
- **South Africa** – differing severity level definitions
- **United Kingdom** – ABI model wordings (just updated)
- **United States** – not at present

Severity-based definitions

- Benefits proportionate to severity
- Perceived increased likelihood of payment
- Fairer than an all or nothing approach
- Allows for illness progression

BUT ...

- With increased complexity
- Little or not data to price them
- And definitely more complicated

Guaranteed vs reviewable premium rates - stakeholders

- **Policyholder:**
 - - likes certainty
- **Intermediary:**
 - - fixed premiums are easy to explain
 - - distrust of insurers and reviewable premiums
- **Insurer:**
 - - face market demand and strong competition
 - - history of problems with reviewable premiums (ie implicit guarantees)
 - - pass guarantee risk to reinsurer
- **Reinsurer:**
 - - client demand for premium guarantees
 - - strong competition & market capacity
 - - can diversify the risk across products, companies & territories
- **Regulator:**
 - - concerned about risk assessment and adequate capital

Reviewable premium rates

- **Advantages:**

- Generally lower premiums (affordability)
- Offers consumer choice
- Changes in an individual's medical condition do not affect their premium when reviewed
- For innovative product design 'reviewable' may be the only option that insurers/reinsurers will support

- **Disadvantages:**

- How reviewable is reviewable (ie implicit guarantees)?
- Commercial pressures
- Policyholder reasonable expectations (PRE)
- Treating Customers Fairly (TCF)
- Review clauses – lack of clarity & transparency (ABI consultation on reviewable premiums')

Guaranteed premium rates

- **Advantages:**

- ‘Peace of mind’ and certainty (that rates won't change)
- Easy to explain at point of sale

- **Disadvantages:**

- Reducing reinsurance capacity & support
- Potential impact of medical advances
- Robustness of definitions against medical advances
- Reserving & capital implications

Claim delays

- Institute of actuaries experience to date
- Offices were asked to supply four dates:
 - - date of diagnosis
 - - date of notification
 - - date of admission
 - - date of settlement
- Various combinations were received
- ‘Admissions’ generally very close to ‘settlement’
- Large delays between ‘diagnosis and notification’ and between ‘notification and settlement’
- Introduced an ‘IBNS’ factor (ie incurred but not settled) – around 15%

Product innovation around the globe (1)

- Payout other than a lump sum (eg monthly to match mortgage payout)
- Benefits based on severity:
 - introduced in South Africa (typically 4 to 8 severity levels)
 - US – partial payments (eg CABG, angioplasty, carcinoma insitu)
- Return of premium upon death/surrender/expiry of stand alone CI
- Multiple payments:
 - partial payments
 - each condition is paid out once with an overall limit
 - fixed number of payments on each occurrence or recurrence of a condition
- Unbundled products:
 - South Africa – basic to comprehensive design
 - US – choice of 'cancer' or 'heart' (covering heart attack, stroke, bypass, angioplasty)

Product innovation around the globe (2)

- Waiver of premium
- Buy back option:
 - on accelerated policies only
 - reinstate sum assured following payment of a CI payment
 - very common in Australia
- Optional benefits:
 - rehabilitation expense reimbursement
 - overseas assistance benefit
 - children education benefit
 - assisting with choosing doctors and facilities
- Products targeted at certain groups:
 - juvenile products
 - newborn coverage
 - female CI products (popular in much of Asia) – female diseases,
 - pregnancy complications, congenital anomalies

Product innovation around the globe (3)

- Integrated products:
 - CI and medical insurance
 - medical reimbursement for costs
 - exceeding lump sum
 - CI and disability insurance
 - reduced lump sum with income payable on
 - continued disability
- Medical advances and reviewable definitions