



New-Age Critical Illness Insurance

The need to reform Critical Illness Insurance (CI) has been recognized in many markets. But how should this change actually be achieved and how then should a ‘new-age CI’ policy look and feel? Based on research from international markets and long-standing risk expertise, we re-shape CI for a sustainable and healthy future for policyholders and Life insurers.



CI will have a stronger market presence if it moves away from being an excessively complex product, to one that is both convenient to purchase and which guarantees an efficient delivery of benefits and valuable services to the policyholder at their time of need.

Starting with policyholder expectations

With competition for CI business high, a large and complex range of CI products is available to consumers, many with long lists of complex critical illness conditions¹. Standardized wordings are a step in the right direction, but perhaps we need to take a few steps back in order to bring us further forward.

We start by asking, what does today’s consumer really expect from a CI product?

- **Convenience;** simple and quick purchasing
- **Engagement beyond the financial transaction;** a service should include an element of personal value, engagement and interaction
- **Assurance** that their product will pay when they genuinely need it.

Figure 1 shows how these expectations translate into requirements at the point of sale, while the policy is in-force and when a claim is made.

Stage of Cover	Policyholder Expectation
Point of Sale	<ul style="list-style-type: none"> ▪ simple and quick application process ▪ an instant decision ▪ the policy is easy to understand
In-force Management	<ul style="list-style-type: none"> ▪ easy ongoing policy administration ▪ option to adjust the policy if circumstances change ▪ value-adding services that promote health and wellbeing
Claim	<ul style="list-style-type: none"> ▪ a quick and fair claims assessment process ▪ support at the time of need beyond the financial benefit

Figure 1: Consumer expectations for CI at the various stages of cover. Source: PartnerRe.

¹ ‘Roots and Developing Structure of Critical Illness Insurance’, PartnerRe 2015; ‘Growth Potential of Critical Illness Insurance in Asia’, PartnerRe 2015.
² <http://www.limra.com/>; 2013 study by LIMRA and The Life Foundation.

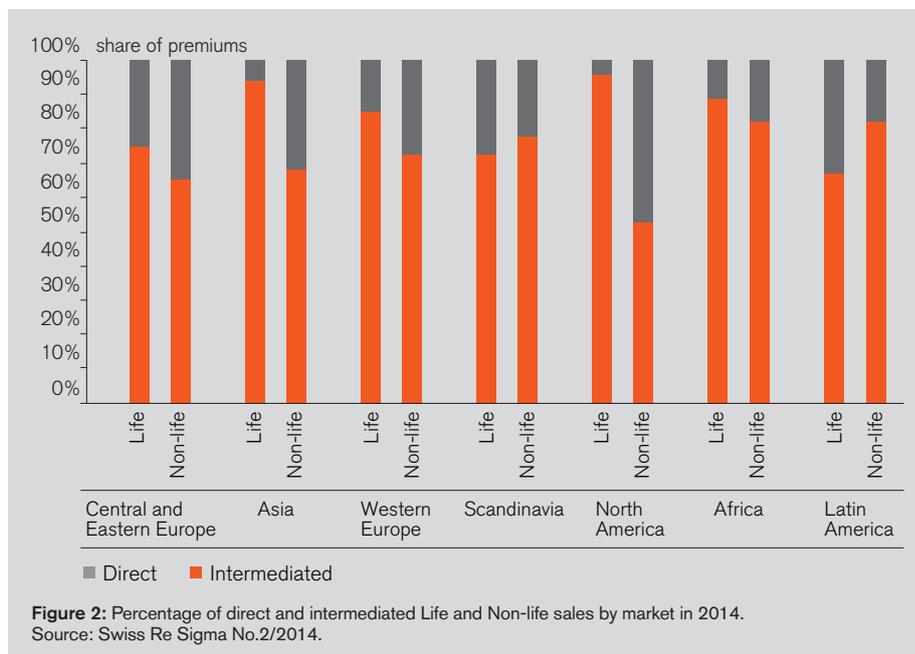
Digital revolution answers the consumer's need for convenience

Online sales platforms offer an obvious route to simple and quick sales for the consumer.

The trend in many insurance markets is away from face-to-face intermediated sales and towards direct (online, post and phone) purchasing. For example, a U.S. Life insurance study showed that in 1996, 80% of customers preferred face-to-face interactions, this fell to 64% in 2011 and 50% in 2013². In fact, in 2013, 85% of those questioned said that they would use the internet in some way to purchase Life insurance. Another study in 2014³ held that of those using direct methods, nearly 70% saw no downside to the experience and that satisfaction levels are very similar for direct and intermediated sales. Despite this, actual 2014 sales figures show that the % of direct sales remains low in comparison to intermediated sales (**figure 2**).

This discrepancy between what is expected and what actually happens equates to an untapped opportunity for Life insurers at all stages of cover, not just at the point of sale. According to a recent Harvard Business Review report⁴, there are three areas where digitalization technology could further improve insurers' performance: Data mining of internet, social media, driving apps and wearables to enhance targeting, pricing, underwriting and claims management; digitization of insurance processes to improve operating profit margins; and increased digital marketing to better communicate with and optimize sales opportunities with existing customers.

And indeed, Life insurers in many markets have launched or are looking to launch Life products through digital channels⁵. For example, in Singapore in 2015, the Monetary Authority of Singapore (MAS) launched compareFIRST⁶ and Direct



Purchase Insurance initiatives⁷. The former is a web portal that allows consumers to quickly compare the premiums and features of similar Life insurance products. The direct purchase initiative enables consumers to purchase insurance from either customer service counters or from the websites of Life insurance companies, without financial advice.

In China, Tencent Holdings Ltd., which has already invested in an online P&C company, will set up China's first internet-based Life insurance company together with state-run firm CITIC Guoan Group, subject to regulatory approval⁸.

But online is not the only solution. For example, in China, ICBC-AXA⁹ has started selling its insurance and retirement products directly to ICBC banking customers through self-service cash machines¹⁰. They will be able to underwrite an insurance policy without any human intervention by using predictive underwriting techniques based on data that they already hold on the applicant.

All such initiatives empower consumers by offering them efficiency, speed, increased choice and by helping them to make better informed decisions when purchasing insurance. However they also necessitate:

- A simplified underwriting framework which asks limited questions and provides instant decisions. Companies adept at handling and analyzing data can utilize data-mining techniques and build predictive models to support the underwriting.
- Simple and easy-to-understand products. Products with almost a hundred complexly-worded listed conditions are not suitable for direct, digital sales.

New approach gives assurance that the product will pay at a time of need

With so many listed conditions, many of which add little value (**figure 3**), CI is confusing for consumers. There is also the risk of non-payment at a time of genuine need if a diagnosis is not on the list despite all the conditions.

³ LIMRA; Shopping for Life Insurance: Spotlighting Direct Response Customers, 2014.

⁴ 'Insurance Companies' Untapped Digital Opportunity'; <https://hbr.org/2014/03/insurance-companies-untapped-digital-opportunity/>

⁵ As part of these considerations, regulation is likely to impact the type and way in which such products can be sold.

⁶ <http://www.comparefirst.sg/>

⁷ <http://www.mas.gov.sg/news-and-publications/media-releases/2015/comparefirst-and-dpi.aspx>

⁸ China Daily (03.09.2015); <http://topic.chinadaily.com.cn/index/cache/collection/cbsweb/source/China+Daily/title/Internet+giant+steps+into+life+insurance?aid=21783010>

⁹ ICBC-AXA Life Insurance Company is a joint venture between AXA Group, Industrial and Commercial Bank of China (ICBC), and China Minmetals Corporation

¹⁰ http://www.axa.com/en/news/2015/china_atm.aspx

Core cover and life-changing event

One way to address these issues would be to move away from a product that focuses on medical definitions, towards one that focuses on a limited number of core conditions that make up the majority of CI claims and which includes an innovative 'catch-all' feature to provide cover for the consumer should they experience a 'life-changing event' from any medical cause and for which they need financial help.

How a life-changing event is defined would vary by market, but could, for example, include an assessment of financial distress (through loss of work or medical costs) or permanent and irreversible functional disability.

It may seem at first glance that this adds unquantifiable risk for the insurer, but on the flip-side, as new medical procedures are developed, illnesses considered serious today may in the future only require routine treatments. A standard CI policy would pay out for these, whereas a life-changing event definition would ensure that payment is only made at a genuine time of need.

Hybrid solutions

As life expectancy increases, the question arises as to whether it still makes sense for the consumer to have separate 'Whole of Life', 'Long-term Care' and 'Critical Illness' plans. An alternative solution would be to combine protections and, for example, to have a single policy that provides financial support not only in the event of death, but that also accelerates part or all of the sum assured if a need arises during life.

From an insurer's perspective, pricing a policy which includes an acceleration of Whole of Life cover would help to overcome some of the challenges of pricing standalone CI and Long-term Care policies for older ages where incidence rates have higher uncertainty.

Ways to add meaningful services and personal engagement

Whilst the financial payment from a CI product helps to alleviate some of the burden of a critical illness diagnosis, the policyholder will have other needs and expectations from their protection:

- Long-term commitment; protection from a provider that joins them on their journey through life.
- A stress-free claims process; for example, smartphone apps now exist with which claims can be submitted electronically.
- Treatment guidance and support; ensuring efficient access to appropriate and high-quality treatment.

Best Doctors

An example of a value-adding service is the 'Best Doctors Critical Advantage' product¹², offered exclusively to PartnerRe's Life insurance clients in all Life markets. This is a rider which can be included in a CI plan and which helps policyholders to address three key questions:

- Is my diagnosis correct?
- Where can I get the best treatment?
- Will I be able to afford it?

With this, policyholders are not only financially protected, but also know that they will have the reassurance of having their diagnosis confirmed and of obtaining access to the best available treatment.

An example of a successful implementation of the Best Doctors service is the Friends Life's Global Treatment plan, winner of the Special Innovation Product Award at the 2015 Cover Excellence Awards¹³.

Similar plans will vary depending on country specifics. In China, for example, Aviva-COFCO Life Insurance launched a Health and Wellness Platform in 2015; a key feature of which is the inclusion of

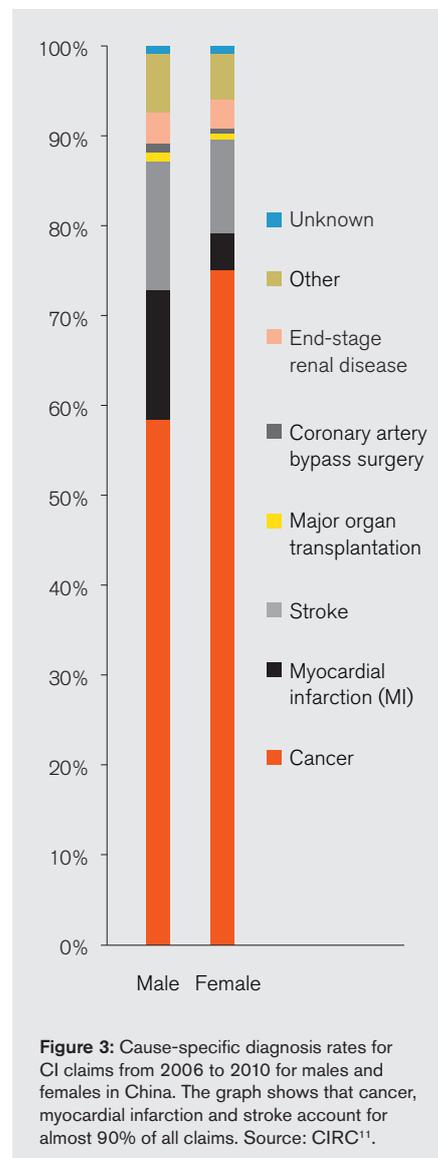


Figure 3: Cause-specific diagnosis rates for CI claims from 2006 to 2010 for males and females in China. The graph shows that cancer, myocardial infarction and stroke account for almost 90% of all claims. Source: CIRC¹¹.

access to the 'Chunyu Online Doctor', a service providing 24-hour online medical consultation across China¹⁴.

Future of CI underwriting

As the product evolves, so too must the underwriting that supports it. Two areas in particular could potentially lead to a sea-change in the underwriting of CI risk; continuous underwriting through telematics and the use of big data.

¹¹ 'China Life Insurance Experienced Critical Illness Table 2006-2010', CIRC (2013).

¹² <http://www.bestdoctors.com/criticaladvantage/html/intro.html>

¹³ <https://customers.friendslife.co.uk/protection/life-cover/global-treatment.jsp>; <http://events.covermagazine.co.uk/awards/static/2015-winners-and-highly-commended>

¹⁴ <http://www.aviva-cofco.com.cn/>

Telematics and continuous underwriting

The phrase 'telematics' – "the blending of computers and wireless telecommunications technologies, ostensibly with the goal of efficiently conveying information over vast networks to improve a host of business functions or government-related public services"¹⁵ – is commonly used in connection with motor insurance.

However, telematics can also be applied to Life insurance through the use of wearables, whereby the individual is continuously underwritten after buying a policy (instead of being medically underwritten only at the point of purchase).

Wearables are becoming increasingly sophisticated. Some track steps, sleep quality, exercise and overall calories burned. Others have bioimpedance¹⁶ sensors monitoring resting heart rate, respiration rate and galvanic skin response¹⁷. Wearables can also automatically log fitness activities and monitor exposure to UV light.

However to be effective for Life insurance, wearables need to be coupled with a wellness program which encourages a healthy lifestyle including rewarding policyholders for healthy activities, like going to the gym, with reduced insurance premiums and other benefits, such as cinema vouchers.

But it's not just wearables which can potentially monitor activity. For example, Nest¹⁸ is working towards the 'connected home' whereby devices within the home monitor the condition of the home and communicate with each other. Could such systems be used to detect how much someone moves around at home or whether they have a more sedentary lifestyle? This may seem far-fetched, but there is already a cup that monitors what you drink¹⁹ and an internet-connected fridge²⁰.

The big data leverage

With the potential to acquire greater volumes of detailed data enabling an analysis of risk at a more granular level, it's of little surprise that 'big data' is a hot topic in the Life insurance industry. This could lead to insurance products being tailored specifically to individual clients and to a de-averaging of pricing and risk diversification.

However, in order to gain a competitive advantage from big data, insurers will need to have the appropriate data analytic capabilities and be able to access meaningful data. The role of companies including Amazon, Google and Apple could be a major consideration here.

Value-adding Life risk solutions from PartnerRe

The shape of the CI product and how it will be distributed and underwritten is on a steep change curve. The ability to react and effectively meet evolving consumer expectations is essential for a healthy business.

At PartnerRe, we help our clients to do just that. We have an international presence, a stable, partnership approach and strong analytic capabilities with which to help our clients to position and secure their business in this new-age of CI. We also work closely with third parties to create and deliver innovative, value-adding services for our clients, including the highly regarded Best Doctors product, that further enhance the appeal of their CI products to their customers.

To find out more about our risk solutions and to contact us, please go to www.partnerre.com/risk-solutions.

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www.partnerre.com

¹⁵ searchnetworking.techtarget.com/definition/telematics

¹⁶ Bioimpedance is a measure of how well the body impedes electric current flow. Fat has high resistivity, blood lower resistivity.

¹⁷ Galvanic skin response is defined as a change in the electrical properties of the skin.

¹⁸ Nest.com

¹⁹ <https://www.myvessyl.com/>

²⁰ <http://www.lg.com/us/refrigerators/lg-LFX31995ST-french-3-door-refrigerator>