

CI needs in Korea

Korea's evolving market needs are generating opportunities for critical illness product development, says **Mr Andrew Gaskell** of **RGA Australian Holdings**.



Critical disease insurance, first introduced to Korea in the 1980s, is today a popular, well-rooted product, with more than one million new policies sold on average a year, and product and rider design choices that continue to increase.

Market development has been slow

Since its launch two decades ago, the Korea CI market has undergone substantial development and expansion. In certain aspects, however, market development has been slower than in other Asian countries.

Impairment definitions are largely unchanged since 2002. Multi-pay policies, introduced in 2010, have been slow to catch on, and early-stage and CI annuity products are not yet available. The roster of covered impairments, generally ranging from 11 to 15 as standard, is also small compared to products sold in other Asian countries. CI products in Hong Kong, Singapore and Taiwan, for example, cover 30 impairments on average, and in some Asian markets, products cover as many as 50.

One possible reason for this could be the highly detailed regulatory procedures and requirements for product filing and rate approval required by Korea's insurance regulators, which has, at times, slowed insurers' ability to bring new product designs to the market. There is also concern on the part of the insurance companies that if a complex product is considered to have been mis-sold, the company could be at risk of having to refund premium.

The Korea market's critical illness insurance needs are continuing to advance rapidly as the country's demographic landscapes evolves, which means considerable and growing opportunities for insurers to develop products and services for Korea's fast-evolving critical illness insurance needs.

Shape of today's market

During the first two decades of Korea's critical disease insurance market, cancer-only products were the only ones being sold. The products were simple and popular, as awareness and understanding of cancer by the insurance-buying public and by agents selling the product was (and is) high.

The market in 2002 took a strong evolutionary step with Samsung Life's development of Korea's first full CI product, which covered eight impairments. Today, 15 of the country's 24 life insurers offer CI products, and several non-life companies (which in Korea can create and sell certain life products) also offer CI, although their products lack the acceleration feature. CI product designs and coverages have also broadened in range and sophistication. There are multi-pay and whole-of-life products available as well as advanced specialty products such as staged cancer, whole-of-life cancer and substandard cancer.

Female-specific CI products have also been developed, covering impairments that more often affect women such as lupus nephritis (an inflammation of the kidney caused by systemic lupus erythematosus), rheumatoid arthritis, and impairment conditions related to pregnancy that are not covered by standard CI policies.





A broad range of riders are available as well, from accidental death and disability, sickness disability, and medical reimbursement to the most recent introductions: second-payment cancer and stage IV cancer riders.

Still, cancer coverage remains a vitally important segment of Korea's CI market. Korea has the highest cancer incidence rate in Asia, which some attribute to Korea's widespread cancer screening programmes. Trend rates for cancers typically screened, while high, are in line with other Asian markets where screening programmes exist. Particularly high incidence rates exist, however, for stomach, colorectal, thyroid and lung cancer.

Trendlines

Korea's thyroid cancer rate, which has been increasing rapidly in recent years, is particularly high by international standards: In 2011, it became the most common carcinoma in Korea, according to data compiled by the Health Insurance Review and Assessment Service (stomach cancer had topped the list before then). Although this particular cancer has high survival rates and comparatively low treatment expenses, its high incidence has relegated its CI coverage to a rider.

Lung cancer, too, has been increasing. The public smoking ban that went into effect at the beginning of July 2013 will most likely reduce smoking rates further as awareness increases of the health impacts of smoking and benefits of quitting. However, the typical lag between smoking cessation and health benefits means incidence and mortality rates for lung cancer will most likely continue to increase for some time. On the other hand, the increase in the non-smoking (or ex-smoking) population may lead to a greater demand for distinct smoker and non-smoker CI premiums in Korea, as has been seen in other Asian markets.

The greatest change in this market, going forward, will most likely be driven by Korea's fast-aging baby boom cohort. The significant mortality and longevity improvements of the last 40 years, driven by enhancements in diagnostic testing, disease screening, treatment methods of many impairments, as well as huge improvements in accidental mortality rates and the shrinking fertility rate, are coalescing into an unusually rapid ageing of Korea's population that will yield the world's highest population average age – 50 – by the year 2045.

The Korean economy's growth into one of the world's high-tech leaders has also eroded the traditional structure of supporting one's ageing elders. Korea's suicide rate, highest in the world for at least the past five years, has sadly found new fuel in the fast-growing rate of elderly suicides. According to a February 2013 New York Times article on the topic ("As Families Change, Korea's Elderly Are Turning to Suicide") the number of Koreans age 65 and older committing suicide has nearly quadrupled over the past few years, in large part due to poverty, resultant inability to afford food, housing and medical care, and the lack of support by offspring or an adequate social security safety net.

The future

Continuing improvements in survival from cancers and other conditions means additional coverage will need to be available. Critical illness products will also need to start covering the medical expense needs of older-age individuals and be more available for purchase to those ages 65 and older.

There is also a clear need for comprehensive CI products that can pay out varying amounts, based on severity of conditions, for a wide range of impairments, with multiple payment and customisation capabilities built into the product, and targeted at older-age segments.

Historically, CI products allowed one claim, after which coverage ceased and the policyholder became uninsurable for new CI. Multi-pay products are already available, and a senior cancer-only product was launched in 2012 covering whole-of-life and allowing entry to age 75.

How reinsurers can help

Partnering with reinsurance companies can provide valuable assistance, both in reviewing existing CI product design and coverages and in exploring the market for product innovations. The fresh ideas available to reinsurers due to their global experience in CI product development can help companies align benefit levels more closely with current CI severities and survival rates, and the potential medical expenses associated with each impairment.

Reinsurers can also help companies determine how best to expand the number and severity of conditions covered, design products enabling early-stage claims for particular conditions, and design multi-pay products that can cover a range of multiple CI events. Reinsurers' expertise in pricing these benefits and options can be of great help to Korean insurers.

In addition, reinsurers can advise on appropriate underwriting and application processes, as well as pricing of insurance products for those over age 65. Finally, reinsurers can provide experienced assistance navigating Korea's complicated regulatory environment – in particular, rate filing for new impairments and payment structures.

Going forward, it is clear that substantial room for further growth is available in Korea's CI market, which will provide a strong opportunity for insurance companies to grow further while meeting needs created by demographic changes and medical advances. ■

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RGA is the 2012 winner for Life Reinsurer of the Year at the 16th Asia Insurance Industry Awards.