

Maintaining the balance

Critical illness model definitions have evolved from relatively straightforward descriptions of medical conditions and policy triggers to complex clinical phraseology better suited to medical grand rounds. As the product and the market continue to evolve, can CI retain its fundamental spirit and still remain sustainable? Dr Philip Smalley, believes it can



Critical illness (CI) insurance, in its slightly more than a quarter of a century of existence, has proven to be a vitally important product that serves a crucial public need.

Since its early days, when only the so-called Big Four impairments – heart attack, cancer, stroke, and coronary artery bypass surgery – were covered, the product and the impairment definitions at its heart, have evolved substantially.

In some markets, well-refined model definitions exist for each of these impairments. In others, insurance companies have developed their own definitional language, usually in tandem with a reinsurer or other product architect. The newer scaled (or staged) products also incorporate additional definitional language specifically to describe triggers for levels of severity within the major impairments.

Currently, definitional language exists in some markets for more than 100 CI

impairments with variations by country, depending both on the impairment's prevalence and the country's insurance regulations. Country-wide codification has also been advancing. The Association of British Insurers (ABI), for instance, maintains model definitional language for 23 CI impairments and will soon publish its fourth revision.

Financial advisors and insurance agents have welcomed the continued expansion of permissible CI impairments, for the trend has fueled a greater variety of product structures and improved CI's utility and marketability.

The need for simplified products and simpler definitions, however, is still a factor.

Some insurers, for example, have developed CI structures specifically for buyers in lower socio-economic brackets. These structures cover only a few impairments and have restrictive definitions so that buyers do not pay for unneeded cover.

Bancassurers are also interested in simplified CI products they can sell easily to their clients. However, the product designs they want may not have to be as price-sensitive, and they could elect to use more consumer-friendly definitions in order to avoid possible claims disputes.

A DOUBLE EDGED SWORD

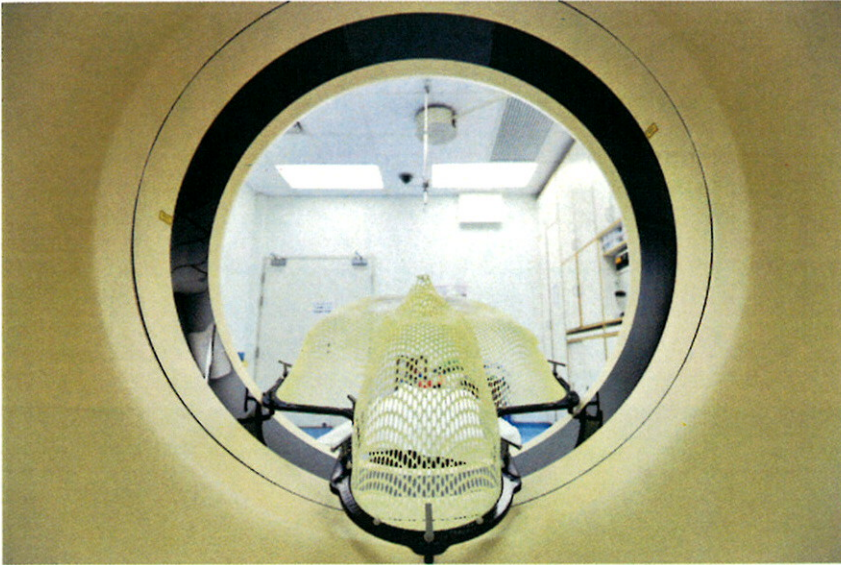
So there are many markets and many diverse needs, all of which are driving CI's evolution, and with it, of CI's definitional language. It is impossible, at this point, to disconnect the two. Most of the forces and ideas, however, effectively boil down to one concept: Policyholders want to know that they will be paid if they are afflicted by a covered condition. The insurer's job, then, is to provide CI products with clear, precise definitional language describing impairments and policy triggers that let the product do so.

Definitional complexity did not happen by accident. The language insurers use to describe covered impairments and policy triggers is derived primarily from the medical profession's own clinical language for the impairments. Changes in CI definitions, whether in a company's list or in the codified industry models, generally stem from advances in medical research, diagnostics, and technology, and from new treatment modalities.

Medical advances, however, can sometimes be double-edged swords not only for CI definitions, but also for CI itself. New cures and detection methodologies can change the point at which an impairment is diagnosed, and even whether some diseases continue to be regarded as 'critical'. This can impact, both positively and negatively, policies already on an insurer's books. On the one hand, increased disease detection with new diagnostic tests may escalate incidence rates. On the other hand, medical advances may also decrease an insurer's exposure by generating declining incidence rates. One case in point is the vaccine now available to protect women from the human papillomavirus, which could lower future cervical cancer incidence rates.

THE BRIEF

- CI product and impairment definitions have evolved substantially
- Medical advances can be 'double edged sword' for CI and CI definitions
- Companies must make 'intelligent decisions' about which impairments are most appropriate for CI policies to cover
- A misplaced 'and' or 'or' in a definition can leave an insurer vulnerable to litigation.
- But important to remember that not every hole in a CI definition can, or even needs, to be plugged



MORE COMPLEXITY

The heart attack definition is a good example of how CI impairment definitions can evolve in response to medical advances, and the potential impact such advances can have on CI product design and loss ratios. Until the late 1990s, insurers routinely used the clinical definition of heart attack – chest pain, ECG changes, and cardiac enzyme elevation – as benefit triggers. The clinical definition was later refined to incorporate the results of a blood test that could detect the ultra-sensitive diagnostic marker of cardiac troponin, elevated levels of which are an indicator of myocardial infarction. This change led actuaries to expect a significant increase in heart attack claims, as patients with angina and other causes of chest pain could meet the definition for myocardial infarction if a blood test indicated sufficiently elevated troponin levels.

Insurers responded to this change by incorporating language about troponin levels along with other clinical

terminology in the amendment language developed for their CI products' heart attack definitions. This helped to mitigate some of the risk, but these changes did add another level of complexity to the definitions and moved the insurance industry's CI definition farther away from the clinical definition of heart attack. Clearly, there are pros and cons to this mode of CI definitional evolution. Finding the right balance can be a challenge.

A CRUCIAL CHALLENGE

Nevertheless, throughout its evolution, CI has worked the way it is supposed to. It mitigates short-term income loss and preserves an insured's financial integrity at a time when it is most needed.

At this point, sufficient knowledge exists about impairments, both clinically and actuarially, for insurers to make intelligent decisions about what kinds of impairments to cover in a CI policy and, when appropriate, how many stages of the impairment to cover.

When developing policies, companies should determine which impairments are the most appropriate for their CI policies to cover. The decisions depend on the market to be served and its financial need. Insurers need to be able to underwrite the selected diseases effectively, and adequate pricing statistics must be available. Companies should also develop clear, effective, and legally defensible language to describe each benefit trigger. A misplaced 'and' or 'or' in a definition can leave an insurer vulnerable to litigation.

It is important to remember that not every hole in a CI definition can, or even needs, to be plugged. Trying to do so could make a product too complex for agents and the buying public to understand. Complexity, however, is not necessarily a bad thing. CI definitions need exclusions and severity clauses in order to maintain the spirit of the policy. For example, not every burn should be covered, because then sunburn would qualify. Nor should every abnormality found on a cranial CT scan be

CI DEFINITIONS: THE RULES

In the several years that RGA has worked with insurers to help them develop CI policies, we have developed several rules of thumb for critical illness definitions, in that they should have the following characteristics:

- Clarity in describing what is and what is not covered
- A match with the insurance company's pricing and its marketing goals
- Close agreement, within reason, with existing clinical definitions
- Clearly written, objective claims triggers
- Resilience to, and/or ability to accommodate, ongoing medical advances in order to maintain the spirit of the policy.

covered either, and CI carriers should not have to make large payouts for every easily treatable minor cancer that does not result in significant financial loss.

Finding the balance for CI definitions, so that they are clinically correct, clearly indicate qualifying conditions and severity levels, and are understandable, accessible, and sensible, is a crucial challenge, and needs a team approach involving the insurer's medical, legal, claims, pricing and marketing arms.

Teaming up with an experienced global partner that has deep mortality experience and product design expertise can also set insurers on the right path to develop innovative CI product solutions that meet client needs and mitigate insurer risks. [®]



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