



Institute  
and Faculty  
of Actuaries

## Shouldn't we be focusing on the bigger issues in the critical illness market?

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Munich Re

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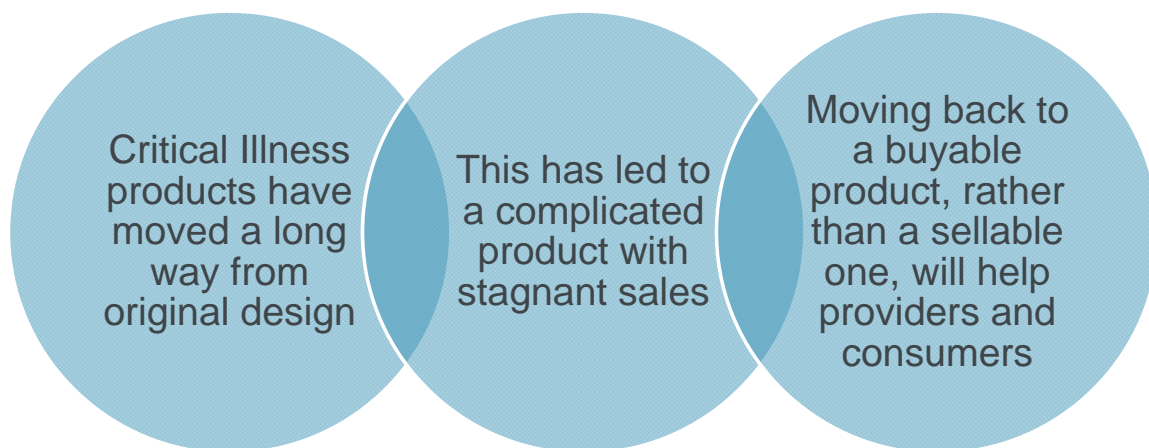
### Show of hands

- Who has a critical illness policy?

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## Contents



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## Launch of Critical Illness

- First product launched on 6 October 1983 in South Africa
- Founded by Dr Marius Barnard
- Originally called Dread Disease
- Four conditions originally covered
  - heart attack
  - cancer
  - stroke
  - coronary artery by-pass surgery

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## The thinking behind Critical Illness

- Key reasons originally for cover:
  - pay for the costs of care and treatment
  - pay for recuperation aids
  - replace lost income due to decreased ability to earn
  - fund for a change in lifestyle

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## Critical Illness development

- After South Africa, UK, Ireland & Australia quickly followed
- First Critical Illness product launched in UK in 1986
- 1990: 100,000 policies sold
- 1991: Majority of UK providers are in the Critical Illness market
- 1998: 700,000 policies sold
- 1999: First ABI Statement of Best Practice
- 2003: Partial payments introduced
- 2005: Condition race escalates

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## Cover Gap – number of new diagnosis in UK

- Cancer 330,000 pa
- Heart attack 188,000 pa
- Stroke 150,000 pa
- Coronary artery bypass 20,000 pa
- Multiple sclerosis 6,000 pa
- Major organ transplant 3,100 pa

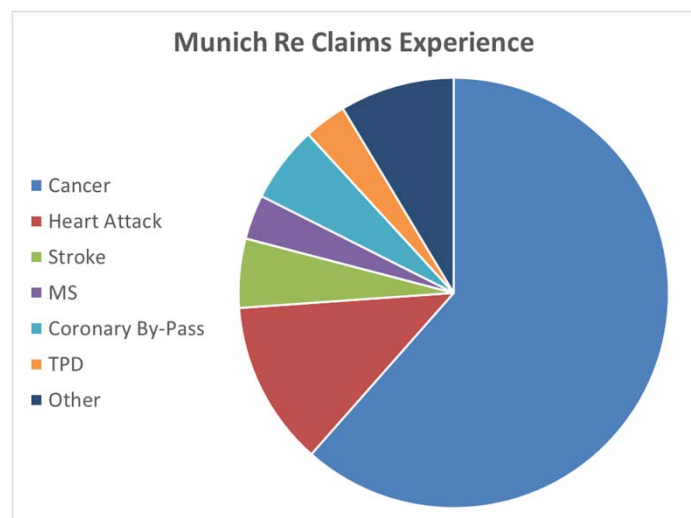
**Only 7% of insurable population have a Critical illness policy**

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## Our claims experience reflects this

- Cancer 62%
- Heart attack 12%
- Stroke 5%
- Multiple sclerosis 3%
- Coronary bypass 6%
- TPD 3%
- Other 9%



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## ABI: Statement of Best Practice December 2014

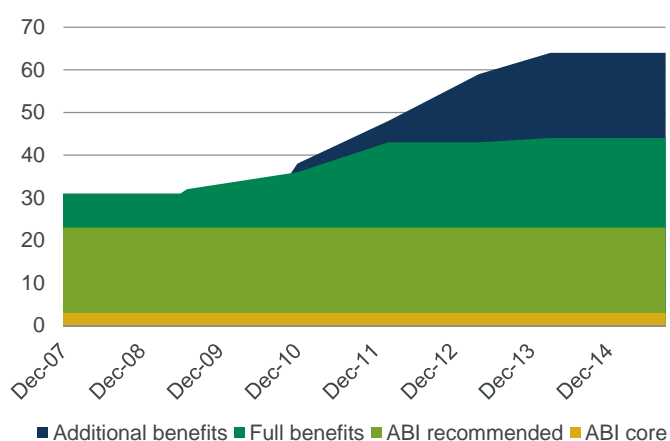
- Minimum Definition of Critical Illness
  - Cancer (excluding less advanced cases)
  - Heart attack – of specified severity
  - Stroke – resulting in permanent symptoms
- Model critical illnesses
  - 24 conditions provided with recommended wordings

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## Current product continues to grow in complexity

- More conditions
- Children's Critical Illness
- Partial and boosters
- 40 – 60 conditions are common
- Complex severity basis introduced

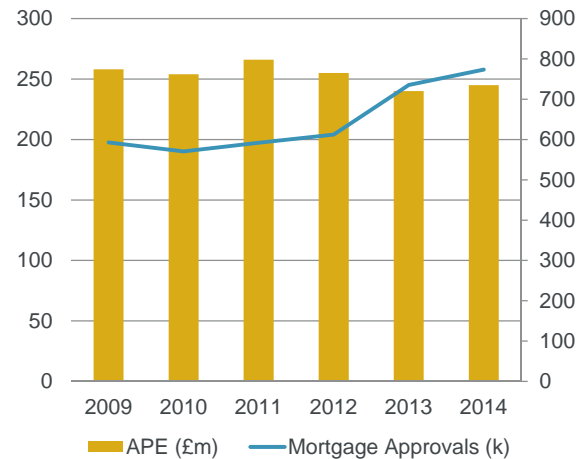


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## Current market

- Stagnant Critical Illness sales
- More conditions and complexity does not seem to help us sell more policies



Sources: Wisdom, G (2015), *Critical Illness: The Past, Present and Future*  
 Bank of England (2015), *Monthly number of total sterling approvals for house purchase to individuals seasonally adjusted*

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## ....and it's getting harder to underwrite

- Increasingly complex products increase the underwriting risk
- Multiple conditions mean multiple layering of underwriting risk
- Underwriting philosophy not always updated and aligned to product
- Additional hurdles to underwrite Critical Illness in the future?
  - Our right to ask family history withdrawn?
  - Personal genetic testing increases the risk of anti-selection

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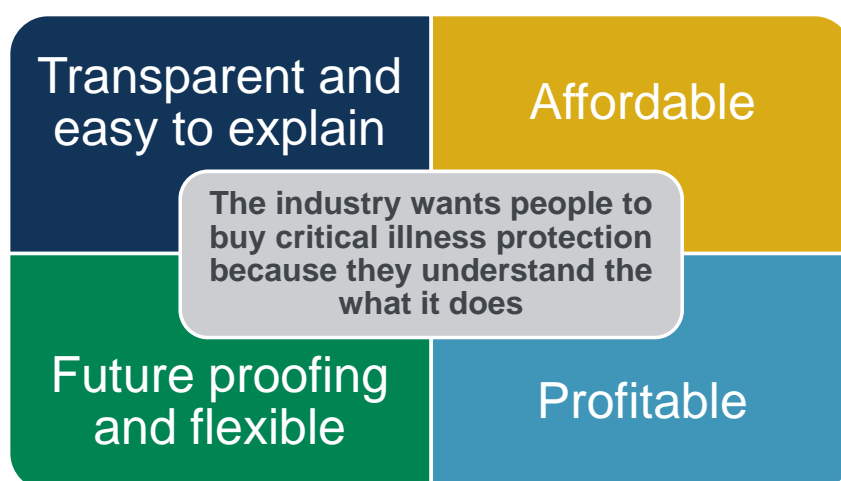
## One example – Ulcerative Colitis

- Ulcerative Colitis – Critical Illness Benefit
- A condition that causes inflammation and ulceration of the inner lining of the rectum and colon (the large bowel)
- Chronic condition. This means that it is ongoing and life-long
- “a definite diagnosis of ulcerative colitis **which is treated with total colectomy**”
- 9% of UK patients require total colectomy
- So is the event we are covering ulcerative colitis or colectomy?

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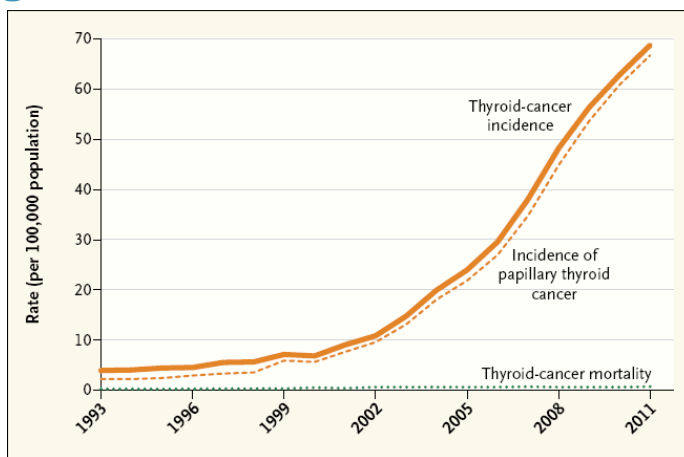
## Where would we like CI to go?



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## Short digression: Profitable?!



Hyeon Sik Ahn et al: "Korea's Thyroid-Cancer "Epidemic" — Screening and Overdiagnosis", N Engl J Med 371;19 November 6, 2014

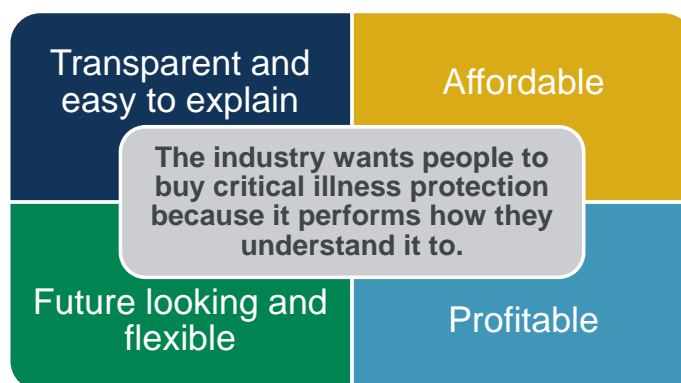
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## How do we do that?

### • Alternatives

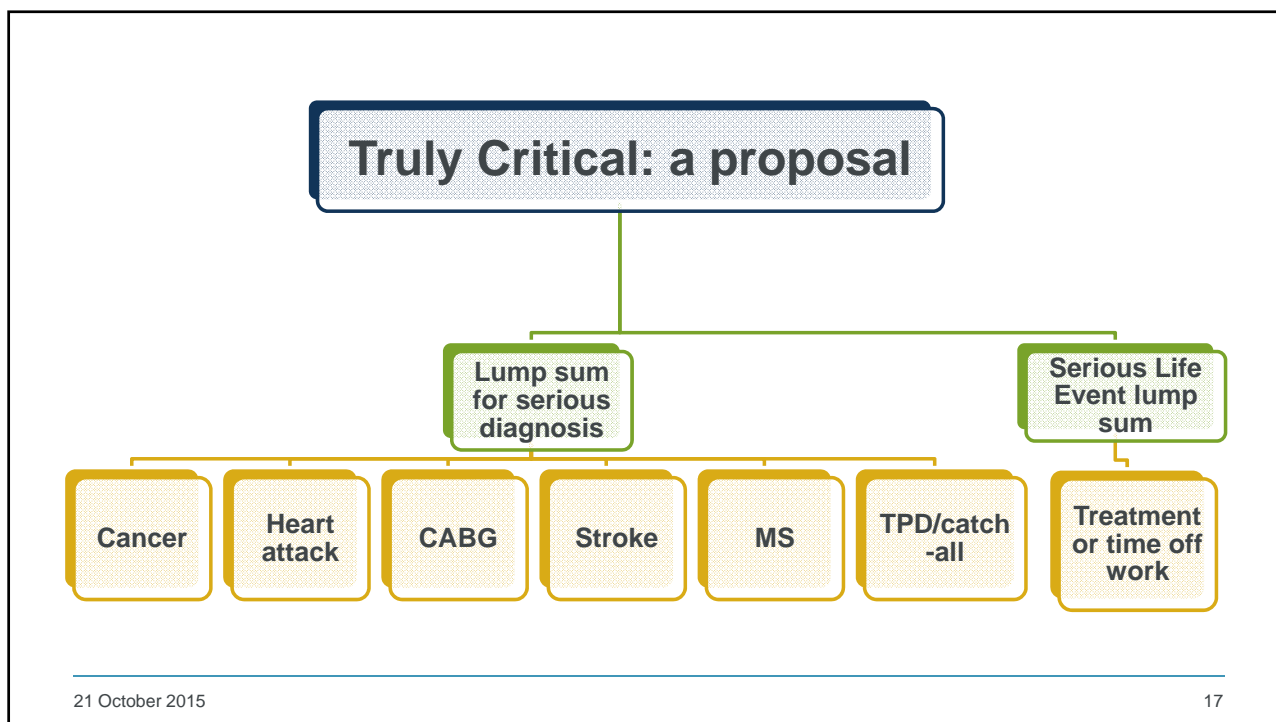
- Existing options:
  - Severity based Critical Illness
  - Standalone TPD
- "Truly Critical"



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**Wrap up**

What do you think?

- Do medical advances mean definitions have to be complicated?
- Should we move to impact/treatment-based payouts?
- Will Critical Illness ever be popular sold next to much lower-cost life insurance?

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## Questions

## Comments

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