

# THE MARKETING OF CRITICAL ILLNESS INSURANCE



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# 1

## INTRODUCTION

**The purpose of this publication is to provide a guide to the principles and practice of marketing critical illness insurance. It is primarily targeted at companies considering the launch of a new product and who sell to individuals via intermediaries, be they tied or independent. Other methods of distribution are not touched on except within the international sales context in the appendix.**

**The particular areas within companies which may find this brochure of use include product development, sales support, market research, sales training and sales management. Companies with an existing critical illness product may also find it useful as a point of comparison.**



# 2

## KEY POINT SUMMARY

- **Critical illness insurance is the payment of a lump sum in the event of the person insured suffering a condition covered under the policy.**
- **Local market research is important to determine the correct product to meet consumer needs and the correct marketing approach.**
- **Public perception is that the chances of suffering a critical illness condition are quite high and that the financial consequences could be catastrophic.**
- **Critical illness insurance is theoretically of interest to all people, not just those with dependants.**
- **Critical illness covers also have applications in the business market.**
- **There are particular features, such as the naming of the product and precise definition of the illnesses covered, which need to be borne in mind when producing marketing material.**
- **Two basic marketing approaches exist – the “statistical” approach which concentrates on the likelihood of such a critical illness event occurring, and the “lifestyle” approach which concentrates on the consequences of such an event. Whichever approach is used, the client is offered peace of mind. Critical illness products are therefore relatively easy for intermediaries to sell.**
- **In most markets where critical illness has been successful, sales have started slowly and it has taken five years or so for sales of the product to become significant.**

# 3

## THE CONCEPT

**Critical illness insurance is the payment of a lump sum in the event of the person insured suffering a condition covered under the policy.**

### 3.1 WHAT IS CRITICAL ILLNESS INSURANCE?

Critical illness insurance is the payment of a lump sum in the event of the person insured suffering a condition, such as cancer or heart attack, covered under the policy.

In the individual market, the aim is to provide a lump sum payment at a time when finances may be strained. The benefits may be used to meet expenses which are not covered under personal or state disability cover, such as experimental or special medical treatment, home modifications, or bridging finance for a business.

In the business market, the policy is often used in relation to buy-sell agreements in partnerships, to enable the remaining partners to buy out a partner suffering from a critical illness.

Due to the payment of benefits on survival of a serious illness, critical illness is classified as a “living” benefit. It is either linked to life cover or is a stand-alone benefit. In combination with life cover it is usually referred to as an “accelerated” or “pre-payment” benefit, meaning the payment of all or part of the life cover prior to death.

“Stand-alone” indicates that critical illness is a benefit in its own right with no link to life cover. This is often in the form of an independent product, but it can be a rider benefit, sometimes known as “additional payment” to distinguish it from “pre-payment”. In most markets, stand-alone covers are a later and less common development designed as a cheaper alternative for people who already have adequate life cover or for those who wish to maintain a significant level of life cover irrespective of serious illness.

### 3.2 WHAT IS SPECIAL ABOUT CRITICAL ILLNESS COVER?

#### **Clear need**

The chances of contracting and surviving a critical illness prior to retirement are reasonably high. Special medical treatment is costly and state healthcare provision is being continually reduced.

#### **Broad scope**

A wide range of medical conditions can be covered.

#### **Simplicity**

Paying out a lump sum on diagnosis of a specified illness is easy to understand, and the lump sum can be used in any way the beneficiary desires.

### 3.3 WHY MIGHT A COMPANY THINK OF OFFERING CRITICAL ILLNESS COVER?

Critical illness can increase sales by providing a full product range because it fills gaps which exist even in comprehensive life, disability and medical plans. A product will, however, only provide good sales volumes in a market where it meets the requirements of the parties involved in the transaction. For an insurance product, this means meeting the requirements of the client, the intermediary and the insurer. In this section we look at how critical illness cover meets the needs of these three parties.

#### **The client**

In general terms, insurance deals with protecting individuals against events which have a low probability of occurring, but whose financial effects can be devastating. Products where the insured event is perceived as having a relatively high probability of occurring are easy to market, and indeed often sell themselves. Products such as motor and home contents insurance are examples of this.

Many clients perceive that the chances of suffering a critical illness condition are high. Whether this is correct or not is a different issue but, as such, critical illness cover addresses clients' fears in relation to what they **perceive** as a high probability event. These fears are often non-specific in financial terms, although mortgage protection is a common objective. The product provides clients with peace of mind.

Specific client needs and target markets as revealed by a Munich Re survey in the UK are outlined in more detail in Section 4 below.

#### **The intermediary**

Critical illness insurance enables the intermediary to deal with clients' fears and to leave him or her feeling that these clients' needs have been addressed (the same "peace of mind" factor as above). Specific target markets are discussed in Section 5 below.

#### **The insurer**

Insurers write this type of business in response to market demand. In most markets, the market price level enables insurers to make adequate profits.

Critical illness products may also increase an insurer's competitiveness by covering a broader range of client needs, and by appearing innovative in comparison to competitors' offerings.

### 3.4 HOW MIGHT A MARKETING BRIEF LOOK?

It is common practice for the product development area of life companies to submit a marketing brief for approval by executive management. It concludes the research stage of the product development process before the company embarks on the design stage. The brief usually summarizes the initiating idea or “hypothesis”, and the results of the market research carried out to test the hypothesis. It concludes with the recommendations based on the research results. Here is a fictitious example of a critical illness marketing brief with the kind of issues that might be addressed:

#### SAMPLE MARKETING BRIEF

##### Hypothesis

Critical illness cover can be successfully added as a rider to XYZ Life’s existing plans to meet increasing client awareness of the costs associated with surviving a serious illness. In being one of the first companies to launch critical illness cover on the local market, XYZ Life can underline its reputation as an innovative company and maintain its leading role in the protection market.

##### Research

Key points from secondary research are:

- The overall critical illness market in neighbouring markets has grown on average by 14% annually over the past three years.
- Although XYZ Life new business premiums have risen by 4% annually over the last three years, the XYZ Life share of the protection market has declined by 2% over the same period.
- The product is suitable for distribution via banks as well as agents.
- The purchaser profile of critical illness in comparable markets is 64% male, age 27.6, and 43% single. The current XYZ Life new client statistics stand at 61% male with an average age of 32.4.

##### Key points from primary research are:

- 67% of agents state that they would “probably” sell critical illness and 42% “very probably”.
- 57% of males under 35 state that they are “likely” to suffer from a critical illness before age 65, and 29% assess the risk as “very likely”.
- XYZ Life is perceived by consumers as being a leading protection office with a competitively priced and comprehensive product range.
- XYZ Life is perceived by its tied agents as offering a full range of reasonably priced products with market average commission and above-average technical support.

##### Recommendation

XYZ Life should develop critical illness cover to meet a growing consumer need and maintain a complete range of protection products. It should be sold principally via our tied agency sales force, but will also be available to our bank partners and independent advisers. It should be priced to place XYZ in the top 20 on any age and sex combination, and to be cheaper than ABC Life on males aged 25–35. A minimum market share of 5% of the stand-alone market should be achieved within 5 years. The commission structure and profit targets should be in line with those of the main benefits.

### 3.5 WHAT ARE THE MAIN PRODUCT-DESIGN ISSUES?

#### 3.5.1 Range of conditions covered

The concept of critical illness insurance is very simple: the person insured must suffer a condition covered under the policy and the insurer must then pay out. The main question then is which conditions should be covered. Many policies around the world cover just the “Big Seven” conditions, these being

- Heart attack
- Cancer
- Stroke
- Heart surgery or bypass surgery
- Kidney failure
- Organ transplant
- Multiple sclerosis

In most countries, however, there has been considerable pressure to increase the list. This may be for marketing reasons as expectations escalate (e.g. “we must have more covered conditions than Company B”) or where intermediaries, for example in the UK, express concern that a client suffering from a condition not covered by the policy would have a claim against them for improper advice or negligence. The marketing consequences of constantly updating a product are obvious:

- Marketing material must be constantly revised. Apart from the time and effort involved, frequent updates also run the risk of appearing gimmicky or even morbid.
- Staff and intermediaries must be constantly retrained.
- Existing clients are rarely happy when they find out about it. This can lead to strained relations between insurer and intermediaries, should clients complain to their intermediaries.

To address this issue, total and permanent disability (TPD) is often included as a catch-all. This does, however, increase the complexity of the product with issues such as “own or any occupation” definition and longer benefit deferment periods on conditions such as multiple sclerosis and loss of sight.

#### 3.5.2 Premium rates

An important issue affecting the marketing message is whether premiums are guaranteed or not. Around the world, most products have no premium rate guarantees. For example, in Australasia products are generally yearly renewable and the premium therefore increases with age. In contrast, in the UK the premium remains level and does not increase with age. Most policies written to date are, however, periodically reviewable so that the premium can be increased if claims experience is poor.

The marketing message is considerably strengthened with guaranteed premiums (i.e. no reviewability clause), but premiums are around 20% more expensive than with the reviewability clause. Whether this margin will prove sufficient is a cause of concern to the insurers who feel that the current scarcity of claims data does not enable them to identify trends in the incidence of critical illness events. Furthermore, incidence data of some illnesses outside the “Big Seven” is scarce. With yearly renewable premiums, this is not an issue as the underlying rates can be increased far more easily.

# 4

## CONSUMER NEEDS

**The four great motivators are said to be greed, fear, love and obligation. To a degree, critical illness speaks to all of them. However, specific consumer needs and target markets (see Section 5 below) vary according to the local market. To obtain a true understanding of the market dynamics, research must be carried out locally.**

**The market described here is the UK one, based on the findings of consumer research commissioned by Munich Re in 1997, which explored attitudes to disability products as well as critical illness. This research was basically qualitative and aimed to “identify what the main issues are, explore them in depth, help build an understanding of how and why people think as they do, and provide guidance as to how their needs – rational and emotional – can best be met”. It arrived at the conclusion that consumers would prefer a contract which is likely to be both affordable and provide peace of mind in the long term.**

### 4.1 GENERAL

People would like flexible policies where they can vary their cover as their needs change. The market would benefit greatly if long-term illness and disability had greater prominence in consumers’ minds, a recent example being the implications of requiring long-term care.

Many people were unaware of the existence of either cover. There was also a degree of confusion as to what each cover actually provides among those who were aware of them, and even among those who held one of these products.

## 4.2 BASIC ATTITUDES TO INSURING AGAINST SERIOUS ILLNESS AND DISABILITY

- Low priority among the under-40s. They think it unlikely they will need such insurance in the foreseeable future, and feel the money could be better spent on other things.
- The over-40s see this insurance as potentially more relevant, but many are put off by its high expected costs and lower priority than other things.
- One widespread deterrent to purchase is concern about how eligibility for benefit would be defined. There are worries about arguments with insurance companies "looking for a let-out". Simple, straightforward, non-arguable criteria are what people are looking for.

Triggers which overcome this attitude and activate purchase are:

- Becoming self-employed, or taking a job with less in-built income protection
- Taking out a mortgage (and being pressurized by the lender)
- Visits from insurance salesmen or financial advisers
- The need to be able to finance children through higher education
- Becoming the sole breadwinner when the spouse retires or ceases work

The main things people look for are:

- Peace of mind
- Replacing current income and thus maintaining living standards as far as possible
- Not falling behind with mortgage payments
- Financing expenses arising from having to live with a serious illness or disability

## 4.3 ATTITUDES TO CRITICAL ILLNESS COVER

Critical illness cover is attractive to a number of people. They like its wide range and feel they have a relatively high chance of being eligible for benefit. The price of cover was a major negative, particularly for the over-40s. The possibility of "easy money" (i.e. payment for conditions that don't have long-lasting effects) was widely recognized and alienated some, as well as attracting others.

Different people see critical illness cover as offering them different things. For some, it is mainly about providing facilities necessitated by the long-term effects of illness or disability, or providing compensating pleasures for them. For others, it would act as a replacement for lost income. Yet another (smaller) group of people see it as a form of life insurance "where they still pay out if you don't die".

Two groups of people became apparent, one whose needs and preferences are well catered for by existing critical illness products, and another (a particularly male group) whose needs are not, and who would be more interested in a product with innovations such as:

- Eligibility based on a general definition such as "serious degenerative illness", provided that the application of the definition to a particular case was in the hands of a consultant rather than the insurer
- Benefit payments varying according to the severity of the condition. This would provide cover when they really need it rather than the chance of a "lottery win"
- Regular reviews of premiums and coverage to take account of developments in medical science and practice

# 5

## TARGET MARKETS

**Theoretically everyone is a potential consumer of critical illness products because they can be sold to single people, not just those with dependants. In practice, critical illness is usually aimed at relatively affluent people aged 25 to 55.**

**Financial services in general make use of lifestage marketing because they identify “trigger” points in people’s lives. It is therefore worth looking first at target markets for critical illness within the context of the five main identifiable lifestages before addressing the separate business insurance market.**

### 5.1 YOUNG SINGLES

Typical financial products targeted at this segment are cashpoint cards and passbooks with bank accounts, credit cards and unsecured loans. Critical illness is one of the few areas where life insurance is of relevance to single people. This is a growing market. For example, according to Eurostat, 8% of people lived alone in the European Union in 1981. By 1999 this figure had risen to 11% and it is forecast to rise to 13% by 2010.

The earliest age at entry depends to a certain extent on the local legal framework, but in the UK most products start at age 18, although some start at 16 to cater for the “serious school boy” market, for example, where children are expected to join the family business.

A recent development in this field is the promotion of single-sex plans, such as female critical illness plans which offer women a means of preserving their independence come illness. The main difficulty experienced here is in offering a reasonable price for the most frequent, and therefore most expensive, cover. Even if other illnesses are excluded, the price differential can be small in comparison to the reduction in range of benefits.

### 5.2 YOUNG COUPLES/FAMILIES

Typical financial products for this segment are mortgages, most forms of insurance, unsecured loans and department store cards. The number of couples without children is on the increase in both the EU (according to Eurostat this rose to 19% of all persons living in private households in 1995) and the US. Critical illness is one of the few areas where life insurance relates to couples without dependants.

The number of couples outside marriage is also on the increase. According to the 1999 National Marriage Project report, nearly half of people aged 25 to 40 in the US have at some point set up a joint household with a member of the opposite sex outside of marriage. It is expected that a married couple stick together through a major illness. However, couples outside marriage may have a greater need for critical illness protection because this expectation is not present. Singles are more likely to feel they have a right to a life of their own and not be tied to someone requiring long-term medical care.

A particular trigger for critical illness in this segment is house purchase. A major fear of consumers is not so much death or that they lose their job, but that they lose their home. Fixed-term critical illness riders are therefore a logical addition to mortgage-related products, such as endowments and decreasing term. The transparent need, pre-set sum insured and the fact that the critical illness premium forms a relatively small part of the overall mortgage payments have all combined to make this a sales success in the UK, where over 50% of all critical illness sales are mortgage-related.

### 5.3 MATURE FAMILIES

Typical financial products targeted at this lifestage are life and health insurance products, and savings. Alongside life cover, critical illness forms part of the safety net protecting wealth accumulation and preparation for retirement during the peak earning period. There may also be a need for protection of the financial commitments to elderly dependants. Another area in this lifestage may be cover to protect payment of private school or higher education fees.

#### 5.4 OLDER FAMILIES

Typical financial products targeted at this life stage are investments and competitive motor insurance. Critical illness issues here are generally similar to those for 5.5 below.

#### 5.5 RETIRED COUPLES/SINGLES

Typical financial products targeted at this segment are schemes to maximize income, immediate annuities and guaranteed acceptance plans. This lifestage has traditionally not been targeted for critical illness by life offices because of the lack of experience and because the scope for anti-selection is high. The maximum entry age on critical illness plans is therefore usually around 55 and the maximum end age 65.

Nonetheless, the need for critical illness cover remains; indeed it may even be at its most obvious to the consumer. Widows, widowers and divorcees in this lifestage are acutely aware of illness, but feel entitled to retain their ambitions and independence. Some companies have therefore extended their scope to accept applicants over 70 at outset.

#### 5.6 BUSINESS INSURANCE

These applications are usually addressed by life cover and some form of disability cover, such as TPD or long-term disability (LTD). Critical illness cover represents a valuable additional benefit because the effect of serious illness on the business can be very similar to that of a case of disability or a death.

##### 5.6.1 Individual policies

Key person, creditor and partnership insurance are common forms. For example, the members of a partnership may need to be able to buy out the share of another member in the event of his/her suffering an illness or injury that prevents them from contributing in the long term to the success of the partnership. There is the added element of uncertainty as to when or even whether the person concerned will recover and return to work. Critical illness also covers the eventuality that the partner who suffered a serious illness can return to work but instead wishes to be bought out due to the health risks associated with returning to work.

### 5.6.2 The self-employed

The self-employed do not participate in the standard benefits available to company employees. Critical illness not only offers the ability to cover major expenses in the short term but also the possibility of financing a subsequent change in employment if necessary.

### 5.6.3 Group

This is a market that has not been heavily penetrated to date. The marketing of these contracts needs, of course, to present a convincing case as to the value to the employer of offering a group critical illness cover to its employees. A common sales technique is to draw an analogy with the cost of insuring the company's motor fleet. Particular advantages to the employer are:

- In some markets critical illness is a relatively cheap option.
- The employer is seen to provide a benefit of perceived high value.
- Unlike disability income products, the employer is not tied into a long-term commitment to the disabled employee. The employer may be able to sever links in a manner which is seen to be generous.

However, in many markets, employers have the upper hand and there tends to be no compelling reason why the employer should incur the cost of this form of cover in addition to the cost of other more traditional forms of group covers. Other disadvantages from the employer perspective are:

- The employer may not want to see substantial payouts to employees who are back at work soon after suffering a serious illness.
- The employer may be concerned that in some cases the payout will be a disincentive to return to work.
- The employer may be concerned that the payout may be disproportionate to the severity of the condition suffered.
- The employer may be concerned that some conditions are not covered.

None of these problems are insurmountable and can be addressed through the product design process, such as "scaled" benefits to make them more appropriate. Another approach is to offer group critical illness cover as a voluntary, employee-paid benefit. The marketing of the product then becomes straightforward.

# 6

## MARKETING MATERIAL

**This section concentrates on the particular aspects to consider when producing marketing material for a critical illness product.**

## 6.1 PRODUCT NAME

Some companies are content to use the generic name. They find this is acceptable to their clients and intermediaries. Others, however, prefer to use an individual product brand name. Which route is taken depends on the results from research of clients and intermediaries, principally whether there are significant negative associations with a generic term and/or competitive advantage to be gained from establishing a branded product.

### Generic

There are some markets where critical illness is known as “dread disease”. For the same reason that life insurance is not presented to clients as “death” insurance, “critical illness” represents a more acceptable description. However, even critical illness itself is sometimes replaced in marketing material with alternatives such as “serious illness”, “trauma” or “crisis” cover.

### Brand

Most products are designed to appeal to as broad an audience as possible; for example, the living benefit element is emphasized with names such as “Lifestyle” or “Lifecare”. Those which target a particular market segment naturally differentiate themselves in the product name. Examples are “Smart Lady” (women), and “Mortgage Cover Plus” (mortgage-related).

## 6.2 CLIENT BROCHURE

This introduces the idea that anyone can suffer from a critical illness condition, and uses one of the marketing approaches mentioned in Section 7.2 to establish the need to insure against it. It will also set out the choices available to the client in terms of conditions covered, indexation of sum insured and premium, etc.

If the critical illness cover is an acceleration of a life insurance benefit, the life insurance benefit itself will have to be marketed and the concept of an acceleration benefit explained before launching into the marketing of the critical illness cover.

### 6.3 TECHNICAL GUIDE

This is largely based on the product specification finalized during product development. It provides the intermediary with all relevant product details and options in one document. Key points regarding critical illness cover are:

- Whether the benefit is an acceleration benefit or a stand-alone benefit
- Choice of conditions covered
- Options relating to indexation of sum insured and premiums
- Commission rates and clawback rules
- Policy limits (maximum and minimum sums insured, premiums, ages, etc.)
- Non-medical limits and underwriting requirements
- Whether multiple claims are permitted, such as on policies with “staggered” or “scaled” benefits where only a percentage of the sum insured is paid on certain illnesses.

### 6.4 POLICY CONDITIONS

Key points regarding critical illness are that:

- It must be clear that only the medical conditions specified under the policy are eligible for payment. There can be no room for subsequent discussion of what constitutes a “critical” illness.
- Exact definitions of the illnesses covered must be given. The wording must be readily understandable and leave no room for subjective interpretation by policyholder and insured. Standard wordings exist in some markets and Munich Re can provide suggested definitions.
- The trigger point for the benefit must be clearly stated in order to avoid misinterpretation or potential dispute.

### 6.5 KEY FEATURES

The key features document explains in plain language and in question-and-answer format the main aspects of the policy. In the UK it is a legal requirement to provide the proposer with product key features at the earliest opportunity to enable them to fully understand the product and compare it with others prior to purchase.

A customer-specific key features document must also be produced once individual details are known and the client is proceeding with the policy. The main information to be provided here concerns the premium, e.g. whether it is level or increasing, guaranteed or reviewable.

## 6.6 FLYER

Beyond the general rules applicable to flyers there are no special considerations regarding critical illness. They typically emphasize the positive benefits, such as reduced stress and future well-being, rather than threaten with illness statistics.

## 6.7 PROPOSAL FORM

Critical illness brings a new dimension to the underwriting questions on the proposal form. Rather than amend an existing proposal form to include critical illness, we recommend producing a special critical illness proposal form in order to satisfy the needs of all parties concerned. This is especially important in the case of a stand-alone product. It can, however, lead to practical difficulties with intermediaries using the wrong forms, especially when they deal with several insurers.

The specific questions depend of course on the product and market, but the following is a checklist of general questions which must be answered from the proposal form:

- Is it clear which type of cover is being taken out, i.e. accelerated or stand-alone?
- Are the critical illnesses covered under the policy also asked after? For example, "Have you ever had a heart attack?"
- Occupation, including precise duties?
- Name and address of the proposer's medical consultant?
- Family medical history?
- Smoker status, both now and in the past? If smoker, type and level of consumption?
- Daily alcohol consumption, both now and in the past?
- Previous hospitalizations, operations, special investigations or medical treatment?
- Any current medication?
- Previous cover? The proposer should be asked to comment on any previous critical illness as well as sickness cover or any simultaneous proposals.

# 7

## SALES

**The concept of critical illness insurance is different to that of the standard life insurance products most intermediaries are familiar with. Therefore other sales techniques and training of intermediaries are necessary.**

## 7.1 TRAINING

The concept of critical illness insurance is different to that of the standard life insurance products most intermediaries are familiar with. It is very important that they understand the rationale behind the product, the needs it addresses and how to sell it to clients. The tools that are used in the sale of life insurance or income protection products do not work in a critical illness context. In particular, critical illness is about coming to terms with a complete change in lifestyle, as opposed to standard life products which generally aim at maintaining a given lifestyle.

The most effective sales training technique is to persuade intermediaries of the need for cover in their own personal circumstances and, if appropriate, even to actually sell the product to them at the launch seminar. This gives intermediaries the belief in the product as well as the back-office administration that enables them to sell it with confidence to their clients. It also establishes credibility with clients who ask agents “Do **you** have this cover?”.

Insurers whose intermediaries have not bought into the product concept have experienced various problems:

- Clients have failed to understand the policy and its terms and conditions. In particular, the range of conditions covered, the moratorium (stand-down or no-pay period) and the survival period have caused claims to be refused. This has given rise to relationship problems between the insurer and the intermediary and the intermediary and the client.
- Sales have been inappropriate – i.e. they have not met clients’ needs.
- In particular, intermediaries have tried to sell cover at too high a level. This has been prohibitively expensive for clients, who, rather than take a lower amount of cover, have taken out alternative covers.

## 7.2 SALES ARGUMENTS

The key to successful sales of critical illness is the ability to convince clients that it can happen to them. There are two basic ways of achieving this with critical illness products: the “statistical” and the “lifestyle” approaches. In practice, most marketing material contains elements of both. Which is most suited to a particular market depends on the characteristics of that market. Local market research must be done to determine the most suitable approach.

### 7.2.1 The statistical approach

The fundamental critical illness sales aid is establishing the probability of contracting a critical illness, both in general terms, such as “One in every three people will have a critical illness” or “You are five times more likely to contract a critical illness than die before retirement”, and in particular:

- **Cancer**, e.g. “1 in 3 men develop a life-threatening cancer”; “A new case of cancer is diagnosed every 4 minutes”; “Every year over 330,000 people in Germany have a heart attack or contract cancer”
- **Heart attack**, e.g. “1 in 2 Canadian heart attack victims are under age 65”; “75% of males survive more than 5 years after a heart attack”
- **Stroke**, e.g. “Every year in the UK there are 100,000 strokes. 75% are still alive a year later”

Closer examination of these examples reveals a key message to be conveyed through statistics, that of the chances of surviving a critical illness. The message boils down to “What can be worse than death?”.

The effectiveness of this sales aid is increased by ascertaining the particular concerns of the target market and obtaining the relevant statistics from local medical institutions. The sales message is then easily communicated and understood. Many clients buy on the strength of probability, often referred to as the “windfall” or “lottery” principle.

An interesting technique of making critical illness both concrete and quantifiable to customers is to first ask them how they would value their life if they felt they **might** have a heart attack, and then to ask them how they would value their life if they **know** they will have a heart attack.

Using statistics to persuade clients of the need for critical illness insurance can be very effective, but the line between effective marketing and scare tactics is a fine one. Going too far can result in improper marketing, adverse publicity and ultimately restricting sales. Insurers must take care to abide by the advertising standards in force.

### 7.2.2 The lifestyle approach

This approach requires the client to acknowledge that there is a risk that he or she could suffer from a critical illness condition, but does not attempt to quantify it. Having established that the risk exists, the three main lifestyle arguments for critical illness cover are:

- Quality of life
- Adapting lifestyle
- Financial commitments

### Quality of life

A life-threatening disease destroys the existing quality of life. It can even be seen as starting a new life. One of the strongest arguments for critical illness cover is not the financial impact, but the psychological. Just as regaining dignity after a serious illness is as important as the physical recovery, the assurance that a dramatic and unforeseeable change in the quality of life is covered brings the security and peace of mind that people need.

A highly effective sales technique is to ask clients to assess the impact of an event and see whether he/she is insured for it:

EVENT	Effect on the quality of your life 1 (low) to 10 (high)	Are you covered for this event?
The washing machine breaks down		
The doctor says you have lung cancer		
Someone bumps into your car		
You have a heart attack		
Paint spilled on the carpet		
You have a stroke		
Your travel company goes bankrupt		
You require open-heart surgery		

The client probably has insurance for the house, car or summer holiday, but the effect on his/her living standard is on the low side. On the other hand the effect of a critical illness is undoubtedly high, and yet there may be no cover at all beyond the direct medical costs covered by health insurance.

### Adapting lifestyle

There is an expectation that married couples are obliged to stick together whatever the changes in circumstances. However, a probing question for single people is “If you had a stroke, would you expect your partner to stay with you?” Many modern couples would respect the partner’s right to their own life and would not expect this. Critical illness can provide the freedom to move to a small, convenient flat with an attendant nurse, or to adapt the existing environment to cope with the change in circumstances.

### Financial commitments

“Jane contracted asbestosis last year. Fortunately she died.” What could be worse than death? The loss of income and cost of the treatment cycle would have financially ruined both her and her partner. People often joke that they are “worth more dead than alive!”, but it costs more to live than to die. Critical illness cover provides the financial safeguards.

The use of true examples where critical illness cover has worked and also where cover was absent is an important element in making the need immediate and real to consumers and agents. For example: “Thank goodness James had taken out serious illness cover because at least we don’t have to worry about money. We can afford private nursing for him, and I can get on with bringing up the children in the way that we always wanted.”

The payment of school fees is a typical concern of the critical illness target market. A parent having a heart attack may mean that children will not receive private education due to savings having been used up as bridging finance or to cover extra treatment expenses. This sale is simple to make and quantify. Even without such a major expense to focus on, the cost of bringing up children after the loss of a breadwinner can be a significant financial burden.

## 7.3 “CASH IF YOU DO, CASH IF YOU DON’T”

The approaches in this section have so far dealt with the need for protection against critical illness, i.e. the assumption that insuring against risk is the client’s main motivation. However, critical illness covers can also be added to savings plans to protect against the risk that the saver cannot make contributions to the plan after suffering a critical illness condition. This enables the savings plan to meet its primary purpose, such as retirement planning or children’s education, even if the saver is unfortunate enough to suffer from a critical illness condition. Hence the tag “cash if you do (suffer from a critical illness condition), cash if you don’t”.

## 7.4 THE FACT-FIND

The fact-find document is a tool for identifying and quantifying client needs and therefore for creating sales opportunities. Regarding critical illness, fact-finds used by agents can be reviewed to ensure that appropriate questions are included to trigger the need and determine suitable cover levels. Particular areas are:

- Nationality, domicile: When and where does the client intend to retire? Early retirement in another, possibly high-cost, country can have a bearing on cover levels in case of illness.
- Health: Not just whether current health is good, but also past and family history, and whether regular check-ups are carried out. A serious illness in the family clearly offers

an opening to discuss the financial effects. Someone who has no check-up is perhaps unsure of their current general health and would need peace of mind. Someone who has regular check-ups is aware of the risks.

- Smoker status: Not just current status, also whether any history of tobacco use. Ex-smokers are often particularly sensitive to the cancer risk.
- Children: Any plans to educate privately, or move onto higher education? What is the total cost and over what period?
- Property: Is the mortgage repaid if a serious illness is contracted?
- Other liabilities and debts: Are these covered in case of a serious illness?
- Income: How would this be affected in case of a serious illness?
- Pension: How confident is the client of building up a sufficient fund and actually picking up the proceeds?
- Partnership: What are the shareholder arrangements in case of serious illness to one partner?
- Insurance coverage: Does the client already have any critical illness cover? If so, what level and how long?
- Financial goals: Does the client require a lump sum in the event of a critical illness?

## 7.5 CLIENT OBJECTIONS

### **“Too expensive”**

The most common objection to critical illness is that the cost is too high. One technique is to break the premium down into small amounts and relate them to the world or business which the client understands. For example, a car mechanic asked to pay \$100 a month, might relate to “Just \$1 for every car you repair in a month”. One dollar in relation to average garage repair bills per car of \$250 appears insignificant and manageable.

### **“Too much insurance already”**

This can be checked by the fact-find.

### **“My equity is in the house”**

This can be overcome by pointing out the implications of raising money by selling their house. Are clients prepared to undergo the stress of moving when they are seriously ill? And where would they go? Are they prepared to move to a cheaper neighbourhood or even return to their parents’ home? Would they be prepared to send their children to a new, possibly worse, school?

### **“No money”**

Again the fact-find is an important instrument to check income and outgoings. Where a client can only afford a certain amount, a premium-based quote (as opposed to a benefit- or need-based quote) can be carried out. The agent finds out how much the client can afford and then quotes the amount of critical illness cover this buys. Quotations systems should be able to cope with both options.

A route when clients really have no spare income is to find out whether there are elder members of the family who are concerned about the welfare of the family. The so-called “greys” are an expanding and wealthy market.

# APPENDIX: SALES EXPERIENCE IN SELECTED MARKETS

**In this section we take a look at the experience in selected markets across the world.**

## SOUTH AFRICA

### When did critical illness cover start in South Africa?

South Africa is regarded as the birthplace of critical illness insurance. Critical illness (or dread disease as it is known there) was first sold in the early 1980s. The product evolved out of a discussion between a cardio-thoracic surgeon, Dr. Marius Barnard, and the chief executive of a life office. The original idea behind dread disease in South Africa as envisaged by Dr. Barnard was, in the absence of a state health system, to cover the cost of treatment of a small range of serious illnesses. Over the years this aim has changed and it is more accurate to say that critical illness, whilst still offering this, is being marketed more prominently as a “change in lifestyle” cover.

### How have sales developed?

At the outset, all covers were pre-payment (or acceleration) of underlying life cover, the maximum benefit was the lesser of R 25,000 (approx. US\$ 4,000) and 25% of life cover, and all policies expired at age 65. The modest R 25,000 figure was chosen because it was the estimated upper quartile cost of a privately-performed coronary artery bypass graft. At the present time, critical illness covers in South Africa remain predominately pre-payment and are generally limited to a maximum per individual of R 550,000 (approx. US\$ 80,000), although some of the larger companies offer up to R 800,000 (approx. US\$ 120,000).

Accurate sales figures are difficult to obtain because critical illness is a pre-payment benefit in South Africa. It is estimated that critical illness sales reached a peak in 1990, being attached to about 60% of all new policies. Estimates of current sales are around half this figure.

Initially the “Big Four” events were covered, viz.

- Heart attack
- Stroke
- Coronary artery bypass surgery
- Stroke

This quickly became five when renal failure was added, and then over the years, as has happened in other countries, the number of conditions/procedures covered has increased to more than twenty.

In the early days of critical illness insurance, i.e. early 1980s, the wording of some of the definitions of the conditions/procedures to warrant a claim were weak and ambiguous, particularly the definition wording in the case of some cancers and also the heart attack definition. This led to some unexpected early claims. Definitions were tightened and also it was necessary for the underwriters, at the proposal stage, to apply a different approach, i.e. different to what they were used to applying in the underwriting of death and disability covers.

Group life covers were introduced originally with shorter lists than their individual counterparts, but this has since disappeared and the standard lists are now utilized. The main reason for the demise of the shorter lists was that employers felt the price differential was minimal compared to their and their employees' perception of the reduction in cover.

Keyman critical illness cover was launched in the late 1980s. The maximum amount of cover available at that time was R 1,000,000 (approx. US\$ 150,000), significantly higher than normal individual cover. Terms were subject to basic financial underwriting. For various reasons, very few policies were sold and the concept has now faded from the market.

#### **What sales channels are used to sell critical illness insurance in South Africa?**

Life office agents generally sell to the lower-income end of the market and independent brokers to the higher-income earners. As critical illness is a relatively expensive benefit, most sales come from the broker market.

Currently in South Africa there are about 14 life offices selling critical illness insurance. This amounts to approximately 70% of all life companies. It is interesting to note that none of these offices sell critical illness as stand-alone cover – it is always sold as a rider to life cover. Some years ago one office did sell stand-alone critical illness. They no longer operate, but this has nothing to do with their stand-alone critical illness plan!

A variation worth mentioning is the scaled-benefit approach. The intention here is to pay a percentage of the sum insured for less debilitating conditions. For example, for a valvuloplasty, heart valve repair, say 20% of the sum insured is payable. For a heart attack, with chest pain, raised enzymes and ECG changes, 100% of the sum insured is payable. The product design allows for a proportion of the sum insured to be payable and the balance available is then reduced for the next incident.

#### **What are the trends for critical illness sales?**

It is generally felt that critical illness sales peaked a few years ago. Major medical expenses cover (MME) offers stiff competition to critical illness insurance. Also, lump sum capital disability has always been very popular in South Africa and decreases the need for critical illness cover.

The introduction of stand-alone cover met with limited success. The reasons behind its failure probably involved the fact that it is expensive and the perceived increase in the risk of anti-selection led to designs that incorporated enhanced safeguards. These safeguards included definitions of diseases more stringent even than the new generation wordings had become. Other problems related to insurance and tax legislation further complicated the product design and placed upward pressure on its pricing. As mentioned already, no company currently sells stand-alone cover, so there is limited experience here.

On the other hand, reinstatement of the already accelerated life cover following a dread disease claim has become a very popular option. This product, which is now offered by the majority of companies, is basically a guaranteed insurability option (GIO). The option is only triggered upon the insured suffering and surviving a dread disease for a predetermined waiting period. This design meant that it could be classified as life cover and hence none of the Insurance and Tax Act problems associated with stand-alone cover occurred. The life cover was reinstated at the premium rate relevant to the policyholder's age at claim stage and any existing loadings were reapplied. The broker market took to the option feverishly and commented that they found it easier to sell the add-on GIO as opposed to the stand-alone alternative. This may well, at the end of the day, be the main reason for its success at the expense of stand-alone, despite the fact that differences in cover or price are not significant.

Another significant trend is the so-called "unitized" critical illness cover. This product stemmed from broker and client pressure that argued "Why do I have to buy all the diseases you offer? I feel I am only at risk for some of them". The arguments went along the lines that critical illness in its current form was similar to comprehensive car insurance. What the market needed, it was said, was third party fire and theft options. Required was a product that had a list of some twenty or thirty diseases which the client, in consultation with the broker, could simply run through and tick off. This is also called the "cafeteria" approach, making the analogy between choosing a policy and selecting a meal from the many dishes on offer in a self-service cafe. A wonderful idea in theory, but extremely hard to put into practice.

The concept brought about many new challenges with regard to design, pricing and underwriting. It became apparent at an early stage of development that, for reasons affecting all three of the above areas, a straight "tick list" could not be offered. The design had to be a compromise between dictated benefits and total freedom of choice. The solution was to create a couple of broad groups of critical illness covers between which the client could choose.

It was also clear that underwriting needed to be refined, although the fact that a person shows an interest in certain covers rather than others would provide guidance to the underwriter. It is too early to tell whether the availability to anti-select due to the cover choice could lead to worsening experience or whether the fact that such cover choice provides clues to the underwriters could more than counter this and lead to an improvement in experience.

The "unitized" product is currently not selling as prodigiously as the market was led to believe by the intermediaries who fought for its introduction. It is complex and much education and familiarization is required in order to place the product firmly on the map, so it is not expected to be as successful as the scaled benefits option. For example, does the client understand the choices? If not, why not take all the diseases to be on the safe side! From the broker's point of view it may also be better to sell full coverage to avoid allegations of misunderstanding or misrepresentation by clients. This could occur if a policyholder tries to claim on an illness within an event group they did not take on the advice of the broker. This could lead to a myriad of problems within the arena of fair contract, best advice, etc.

### **Future marketing of critical illness insurance?**

Developments to date are in the direction of scaled-benefit policies combined with the reinstatement option. This policy design satisfies a need and counteracts the greed motive.

It is evident that critical illness is suffering from competition caused by the introduction of MME contracts. This is mainly because the MME market is very effective due to the lack of a national health system, the cover is cost-effective, the products cover many eventualities and can cover the whole family.

The most likely future development is that of packaging rather than any design changes. The market is going through a phase where pre-packaged goods are the order of the day. Broking houses, banks and even retail shops want to have product packages specific and even branded to themselves.

## **CANADA**

### **When did critical illness insurance start in Canada?**

Critical illness, in its current form, is relatively new in Canada, having been first introduced in 1993. Critical illness-type policies did exist in the 80s and could actually date back to the 50s. They were, however, limited in scope and not what we see today.

### **How have sales developed?**

Canadian critical illness sales have developed slowly since its introduction. The industry expected much quicker results, but no one is discouraged. The critical illness hype continues to increase and more and more companies are getting into the market. Currently there are approximately 20 insurance companies that offer critical illness insurance, and that number is expected to increase. Also, banks are starting to get into the market by offering critical illness coverage on mortgages and loans and creditor critical illness.

As of now there are about 15,000 individual critical illness policies in force with an average face amount of about Can\$ 100,000. The average issue age is 41 and average annual premium approximately Can\$ 1,000. 1998 sales amounted to around 8,500 policies, generating premium dollars in the range of Can\$ 8 million to Can\$ 9 million. 1998 sales alone are therefore more than double the sales generated from 1993 to 1997. This trend is expected to continue as more companies enter the market and as more people become aware of this type of insurance.

The main reason sales have developed slowly and continue to do so are because of inadequate marketing, broker training and lack of agent and public understanding of the product. However, optimism is higher than ever, given the 1998 numbers, and some believe the market may have turned the corner and sales will explode.

### **What is the trend for critical illness sales?**

The anticipated trend for critical illness sales is strong growth. The Canadian life industry believes critical illness will follow a similar pattern to that in countries where it has been a success. It took about five years before the public became familiar with, and realized the need for, critical illness and then sales grew quickly.

**What sales channels are used to sell critical illness insurance in Canada?**

Most critical illness sold is through an agency field force i.e. brokers, associates and agents. Group critical illness (or employer-sponsored critical illness) is gaining in popularity and some believe that it has greater potential than the individual critical illness market. A small portion has been distributed through worksite marketing, bypassing the agent. As critical illness matures in Canada it could become a commodity and may eventually be sold through direct response programmes. Also, as the Canadian insurance industry becomes more comfortable with the World Wide Web, it could be offered through the Internet.

**Who buys critical illness in Canada?**

A typical market for critical illness has not yet emerged in Canada. The demographics of the policyholders range from young to old, male and female, and small business owners to professionals. In general, higher-income earners tend to buy more critical illness than do lower-income earners because the premiums are quite expensive. The premiums in Canada are relatively more expensive than, say, Australia, because the product is guaranteed for the life of the policy. Also, the female distribution of critical illness sales is larger than a typical female distribution for life policies – approximately 30–40% female critical illness policyholders. One theory is that there are an increasing number of female business owners and this product has appeal to the professional and business market.

**Sales success or failure stories in Canada?**

As of now, there are no sales success stories that the industry can leverage off, and at the same time there are no sales failure stories that will hamper the growth of critical illness in Canada. However, most of the big insurers in Canada have not yet entered the market and are just beginning to explore this avenue. When the larger insurers become comfortable with the idea of critical illness insurance it could change the market drastically. We see this happening within the next couple of years.

**Marketing of critical illness insurance?**

The marketing and broker training of critical illness in Canada has not been very successful. There are certain brokerage companies that are very committed to selling critical illness and have experienced significant results from their marketing and training. However, this is not the norm in the marketplace today. When critical illness first came out, the marketing focused more on the fear factor. Critical illness statistics were shown over and over again to drive home the point that it could very well happen to consumers, so they should seek cover. Companies who sold disability products began marketing it as a complement, where if the policyholder is disabled and suffering from a critical illness, the disability policy replaces income and the critical illness lump-sum benefit covers additional expenses associated with the illness. These two approaches have not been very effective. The industry is still scrambling to discover the most effective marketing spin. It is moving towards a needs analysis situation and promoting the fact that the benefit can be used to travel to the US to get quicker and better treatment.

## UK

### When did critical illness insurance start in the UK?

The first critical illness products appeared on the market in the mid-1980s, but no significant volumes of business were written until the late 1980s.

### How have sales developed?

Around 100,000 new critical illness policies were written in 1990. By 1997, this had increased to 633,000 new policies, and further to 695,000 in 1998, with the biggest increases occurring in 1995 and 1996. At the end of 1998, there were just over 2.25 million critical illness covers in force.

Most companies in the UK market write critical illness business, but the top ten insurers account for just under 60% of total new sales. The top insurer has just over 10% market share of new sales and the top three insurers have just under 25%.

In the UK, critical illness covers are always written in conjunction with a life insurance contract – either term, whole of life or endowment insurance. It can either be an accelerated payment of the life cover or a stand-alone benefit.

- 82% of critical illness covers sold in 1997 were acceleration covers. Of these, 40% of the underlying policies were term insurance, 12% were whole of life and 48% were endowments. The average sums insured were £47,000 on term insurance, £68,000 on whole of life and £35,000 on endowment.
- 18% of critical illness covers sold in 1997 were stand-alone covers. Of these, 50% were riders to term insurance policies and 50% were riders to whole of life policies. The average sums insured were £48,000 on term insurance, £64,000 on whole of life, with average premiums of £370 and £380 respectively.

### Who buys critical illness in the UK?

The main events that trigger reviews of insurance covers are:

- **Taking out a mortgage** (and being pressurized by the lender).  
Two-thirds of critical illness sales in 1998 (in 1997, three-quarters) were made in conjunction with a mortgage.
- **Becoming self-employed, or taking a job with less in-built income protection.**  
Significant sales volumes also come from the self-employed, who do not participate in the standard benefits available to company employees. Critical illness not only offers the ability to bridge the absence of income in the short term, but also the possibility of financing a subsequent change in employment if necessary.
- **The need to finance children through private or higher education.**  
A parent suffering a critical illness may mean that the children do not receive private education or cannot be financed through higher education.

**What sales channels are used to sell critical illness in the UK?**

Many critical illness sales in the UK are made in conjunction with a mortgage, often by bancassurers. The main distribution channel for bancassurers is their direct salesforces, and the largest percentage of critical illness sales comes from direct sales. Just under 50% of sales arise through this channel.

15–20% of critical illness sales are made through appointed representatives. These are companies who sell the products of just one insurer, and most sales through this channel are also made in conjunction with mortgages. The total sales of critical illness made through direct sales and appointed representatives represent about two-thirds of total sales, consistent with the proportion of sales made in conjunction with mortgages.

Independent financial advisers account for vast majority of the remaining sales and about 30% of total sales. This proportion has been increasing slowly as the proportion of sales made in conjunction with mortgages has reduced. In general, critical illness sales through independent financial advisers are not made in conjunction with mortgages. These sales are more likely to be made to the self-employed, the business market, and to cover school fees.

Group critical illness sales in the UK have been very limited, but such sales as there are have been made through independent financial advisers.

**Marketing of critical illness insurance?**

Printed marketing material in the UK has focused on the groups who already buy critical illness products – i.e. those taking mortgages, the self-employed and businesses.

The need for the insurance is established through the fact-find (needs analysis) that must be completed in connection with all insurance sales where advice is given by the intermediary. This establishes the client's financial position and shows where insurance coverage is lacking and where it is needed.

**What are the trends?**

Independent financial advisers are becoming more aware of critical illness products and understand better how they meet people's needs and how to sell the products.

Interest rates in the UK are at their lowest levels for many years and house purchases are very affordable. The mortgage market is therefore buoyant, and critical illness sales in conjunction with mortgages should continue.

The UK economy is expanding, and people are more willing to become self-employed when the economy is expanding.

The three main sectors of critical illness sales in the UK are in good financial shape, and the prognosis for the overall market must be for it to continue to grow rapidly, at least in the short term.

## AUSTRALIA

### When did critical illness insurance start in Australia?

Critical illness products were launched in the late 1980s. They were originally introduced as an acceleration benefit on term insurance policies. Most of the business is written as guaranteed renewable on a stepped-rates basis, i.e. rates are not guaranteed, and the rate payable is the rate appropriate for the life insured's age at each annual renewal date.

### How have sales developed?

Critical illness has been a "success" story in terms of premium growth in the 1990s:

#### New annual premiums (A\$ million)

	1997	1996	1995	1994
Critical illness	48	45	45	40
Total market	328	304	278	257
CI (% of total)	15%	14%	14%	12%

#### In-force premiums (A\$ million)

	1997	1996	1995	1994
Critical illness	191	127	108	88
Total market	1403	1227	1080	896
CI (% of total)	14%	9%	8%	6%

It is expected that the trends evident in the 1994–97 figures above will continue. The current in-force premiums are dominated by accelerator critical illness.

### **Marketing of critical illness insurance?**

Approximately 30 companies sell individual critical illness. The market is very competitive, with the focus on definitions and underwriting limits, rather than price. This, combined with the yearly renewable concept, results in a very high level of policies regularly being cancelled and taken up with another company.

Critical illness as a rider to disability income policies is common but the effective sum insured is very low. One would expect most people suffering a critical illness to be disabled for six months anyway. All Australian policies contain a waiting period to avoid anti-selection. A claim is denied if symptoms for certain traumas become apparent within (usually) three months of commencement.

The maximum critical illness coverage at inception in the Australian market is A\$ 1 million without exception, to our knowledge, although this can increase in line with inflation. Cover of this magnitude is only really seen in conjunction with business-type debt insurance.

Most intermediaries use software to compare and contrast different companies' offerings. This results in purchasing decisions being recommended on increasingly small differences.

### **What are the trends?**

Over recent years critical illness cover has been introduced into many "de luxe" versions of disability policies as an extra benefit. The critical illness rider usually pays a guaranteed six months' benefit on diagnosis of a defined illness (usually the major traumas) irrespective of whether any subsequent disability benefit is paid. If the critical illness rider is paid, then disability benefits would normally not begin until the life has been disabled for six months.

Stand-alone critical illness policies have also been introduced recently and are now widely available, although the market is small. Stand-alone cover is often conditional on having a life policy in place. The main driver for stand-alone covers is tax. The insured can get life cover within his/her pension fund and so get a tax break, but trauma must be written outside the pension fund. Most companies now sell both accelerator and stand-alone versions of the product.

Typically around one in three claims are rejected. There is concern in some quarters that a class action could occur at some point as the number of disgruntled customers grows.

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