CRITICAL ILLNESS INSURANCE: WHAT YOU NEED TO KNOW AND WHY YOU SHOULD CARE ABOUT IT

Sophie Clément, FALU
***OTR* Editor-in-Chief**
SCOR
Toronto, ON
sclement@scor.com

Executive Summary *Sophie Clément has been underwriting disability and critical illness insurance and supporting the development of living benefits products for 25 years. In this article, she provides a detailed description of CI insurance products and why she believes they are so important. She is very passionate about CI insurance and hopes to share some of that passion with you.*

Introduction

What would happen if you or your partner suffered a serious debilitating illness? Would you have enough money set aside to weather the storm without depleting your life savings or having to sell your house? Or worse, your child was diagnosed with cancer or a congenital heart disease. Wouldn't you want to be by their side every single day and night until they got better? None of us wants to think about this and, yet, unfortunately it happens to us or to the people around us, and when it does, it can be devastating.

This is when Critical Illness (CI) insurance can help, by at least alleviating financial stressors in difficult times, so that people suffering a serious illness and their families can focus on healing and recovery, instead of worrying about how they will be paying for their usual bills and the additional expenses that they could be facing as the result of the condition.

If you, the reader, are from the UK, Australia, Asia or Canada, you are likely familiar with CI insurance and have probably underwritten it. If you are in the US, you may not be as familiar with this product, as it is mostly sold as a supplementary health benefit as part of worksite/group insurance. CI is not as popular yet in the individual insurance market in the US. This is your chance to learn more about it.

In this article, since I have been underwriting and participating in the development of CI products in the Canadian market for close to 25 years, I will be discussing CI insurance mainly from a Canadian perspective. I invite our colleagues from the UK, Asia and Australia to share information about the products in their own market so that we can all learn more about other exciting CI products from around the world!

History of CI Insurance – Dr. Barnard

Dr. Marius Barnard was a South African cardiac surgeon and the first to recognize the need for an insurance product that pays upon diagnosis of a severe illness rather than only after a death has occurred.

The trigger was one of his patients, a single mother with two young children, who was diagnosed with lung cancer. Despite her severe, aggressive condition, she had to continue working until 3 weeks before she died in order to continue providing for her children. She could not afford to take any time off work because she needed her income to pay for housing, food and education for her children. Her family received life insurance benefits, but only after the poor woman died.

Dr. Barnard once reflected, when thinking of his transplant patients, that when they did survive, "They didn't lose their life, they lost their life savings."[1]

This terrible situation made Dr. Barnard wonder if it wouldn't be better for his patients if they could receive an insurance benefit while they needed it during their illness rather than only after they passed. He took it upon himself to meet with an insurance company and asked it to develop a new insurance product that would pay upon diagnosis of a critical illness. Hence, the first CI product was introduced in 1983 by Crusader Life in South Africa.[2]

What Is CI?
As mentioned above, CI insurance pays a lump sum benefit upon diagnosis of a critical illness. However, CI is unlike disability insurance, which pays a benefit if the insured person satisfies the definition of total or partial disability regardless of the cause of said disability. CI insurance pays a benefit only if the insured person receives a diagnosis of one of the covered conditions or surgical procedures as defined in the policy contract. The person does not have to be disabled or die in order for a benefit to be payable.

Once the lump sum is paid, the beneficiary, usually the insured person, is free to use that money any which way they want. They can use it to pay for their mortgage, to replace any lost income for themselves or their spouse, to hire some help for childcare, housework or personal care, to build a ramp and adapt their home for easy wheelchair access, etc. Of course, CI benefits could also be used to pay for treatments or interventions that may not be covered by private or government health insurance plans, which we see more frequently with new personalized treatments being developed.

CI insurance can also be purchased by a business to cover the loss of income should one of the owners, partners or key employees becomes severely ill.

Covered Conditions (Canada)
In Canada, these are the covered conditions that we see being offered by most insurance carriers:

1. Aortic surgery
2. Aplastic anemia
3. Bacterial meningitis
4. Benign brain tumor
5. Blindness
6. Cancer (life-threatening)
7. Coma
8. Coronary angioplasty (partial payment)
9. Coronary artery bypass surgery
10. Deafness
11. Dementia, including Alzheimer's disease
12. Heart attack
13. Heart valve replacement or repair
14. Kidney failure
15. Loss of independent existence
16. Loss of limbs
17. Loss of speech
18. Major organ failure on waiting list
19. Major organ transplant
20. Motor neuron disease
21. Multiple sclerosis
22. Occupational HIV infection
23. Paralysis
24. Parkinson's disease and specified atypical Parkinsonian disorders
25. Severe burns
26. Stroke

A few companies now also cover acquired brain injuries.

Standardized Definitions
In 2007, the Canadian Life and Health Insurance Association (CLHIA) created a working group that was tasked with creating standardized CI definitions that ended up being used by most carriers in the country. Per the CLHIA, "The CI benchmark definitions were developed in 2007 in an effort to grow the market by removing some of the perceived complexity around CI definitions."[3] The idea was that it would make life easier for advisors as they would no longer have to compare definitions from one insurer to another when presenting different products to their customers. The committee that worked on the definitions included medical, underwriting, marketing and actuarial representation from 11 companies.

The CLHIA indicates that use of the definitions is completely voluntary and that there are no rules that insurers who use them must comply. Insurance carriers are free to determine which definitions they decide to use in their policy contracts.[3]

The CI benchmark definitions were revised in 2013 and again in 2018 by similar committees which, in addition to all the professionals already listed above, also involved claims professionals. The purpose for most of the modifications made over the years has been to clarify the industry's intent to pay only for more serious conditions.

Over the years, some changes were also made in response to the results of the Canadian Institute of Actuaries (CIA) Critical Illness Morbidity Experience Studies. For example, in one of those studies, it was determined that there might be anti-selection when it came to the Parkinson's disease definition; therefore, a 1-year waiting period was added to that definition. Having said that, for that same definition, it was decided in 2013 to add "specified atypical Parkinsonian disorders." The reasoning behind that decision was that in many instances, some atypical Parkinsonian disorders can be just as severe if not more severe than Parkinson's disease itself. The same can be said about Alzheimer's disease, to which most forms of dementia were added to the definition in 2013.

As you can see, this is a work in progress. Unlike other insurance products such as life and disability

insurance, the nature of CI products and the fact that they cover specific medical conditions require that definitions must be updated regularly to reflect medical advances and morbidity experience. In Canada, because the vast majority of products sold in our market are fully guaranteed, non-cancellable products, often with a term to age 75 or even to age 100, the definitions must be developed very carefully, always requiring product developers to be forward-thinking. When a non-cancellable policy is issued, the definitions in the contract become permanent for the life of the policy and cannot be modified at any point in time in the future, nor the premiums. This leaves very little room for errors. It is important to future-proof the definitions as much as possible.

Partial Benefits

In addition to the covered conditions for which we pay 100% of the face amount of the policy, CI insurance also includes partial benefits. The intent of offering partial benefits is to provide coverage upon diagnosis of a condition that may be serious, but not as severe as the conditions covered at 100% of the face amount. If you were to look at the definitions of coronary artery bypass surgery and of cancer, for example, you would notice that most conditions covered on a partial basis are conditions that are specifically excluded from the definitions of these two conditions.

Partial benefits can vary from 10% to 25% of the face amount, up to a maximum of CAD$50,000, depending on the carrier. The number of partial benefits payable under CI policies varies greatly, going from once per lifetime to an unlimited number of times over the life of the policy. Most pay partial benefits in addition of the face amount. In some cases, the partial benefit is paid in acceleration of the face amount, therefore reducing the amount of the benefit should the applicant claim for a partial benefit or more and then later for a covered condition at 100%.

These are the conditions covered on a partial basis in the Canadian market:

- Coronary angioplasty
- Non-life-threatening cancers
  - Early-stage breast cancer
  - Early-stage prostate cancer
  - Early-stage skin cancer
  - Early-stage thyroid cancer
  - Early-stage chronic lymphocytic leukemia
  - Early-stage gastrointestinal stromal tumor
  - Grade 1 neuro-endocrine tumor (carcinoid)

As you can see from this list of conditions, although they represent significant diagnoses, they are not as severe as the list of 26 conditions from above. Angioplasties are not as invasive as a coronary artery bypass surgery and do not require the same period of recovery. Therefore, it was determined that a partial benefit would be more appropriate and adequate in most situations.

The same goes for the list of early-stage cancers. They are cancers, so of course would cause of lot of anxiety in the person being diagnosed and their family, but the treatments required to cure them would generally not be very invasive and they would benefit from a quick recovery in most cases.

Survival Period

When CI was first introduced in Canada, a survival period of 30 days was applied to all definitions, which requires the person insured to survive for a period of 30 days following the date of diagnosis or surgery (in the case of aortic surgery and coronary artery bypass surgery). The 30-day survival period was added to CI policy contracts mainly for two reasons. First, CI insurance is a living benefit; therefore, the insured person should be alive to claim their benefit. Second, the purpose of the coverage is to provide financial support to an insured person and their family after the diagnosis of a severe condition or serious surgery, so that they can take the time they need for treatment and recovery, and help them avoid financial distress during that period of hardship.

In 2018, we saw a few companies start moving away from applying the 30-day survival period from all conditions to all covered conditions that were not cardiac- or stroke-related, such as cancer, benign brain tumor, etc. This decision was driven by the struggle for some insurers that they might have to decline a claim for a very aggressive condition such as pancreatic cancer, which is often so aggressive that by the time an individual is diagnosed, the person might not survive for 30 days. Although this is not a common occurrence, when it does happen, it does not feel “right” to decline claims, so insurers preferred to remove that requirement from their policy contracts. However, since the mortality rate is more elevated in the 30 days following a cardiac or stroke event, the 30-day survival period has been maintained for this type of covered condition.

Waiting Period

Over time, waiting periods have been added to a few definitions, particularly when we see a higher potential for anti-selection. For example, in 2013, a 1-year waiting period was added to the Parkinson’s disease definition. The same was done for the multiple sclerosis definition in 2018. Because of the nature of these types of illnesses, it is not rare for a person

to experience symptoms that over many months, sometimes years, could be indicative of a neurological disorder without having received a firm diagnosis. In some cases, particularly when dealing with informed applicants such as physicians or nurses, they can recognize the symptoms and apply for CI coverage before seeking further formal care for their condition. This is especially true for conditions for which no cure is currently available.

Moratorium or Exclusion Period

On older versions of CI policy contracts, we used to refer to exclusion periods as "moratorium periods." Most contracts now simply refer to the term "exclusion period." Those are used mainly for the cancer and benign brain tumor definitions. Basically, this type of exclusion is there to protect the insurer in the case of an early diagnosis of cancer or benign brain tumor and to prevent against anti-selection. It generally reads as follows:

"No benefit will be payable under this condition if, within the first 90 days following the later of the effective date of the policy or the date of last reinstatement of the policy, the insured person has any of the following:

- Signs, symptoms or investigations that lead to a diagnosis of (cancer, benign brain tumor) (covered or excluded under the policy), regardless of when the diagnosis is made; or
- A diagnosis of (cancer, benign brain tumor) (covered or excluded under the policy)."[4]

If an insured person was to find a lump in the breast 1 month after the effective date of the policy, even if they were diagnosed 6 months later, the exclusion would be applied and a claim for breast cancer would be denied.

As underwriters, we know that it is relatively easy for us to assess cardiac risks as we can look at the smoking status and the blood pressure, order a blood profile to look at cholesterol, triglycerides and even NT-proBNP levels. We can also determine if a person is pre-diabetic or diabetic, as we have access to their build, etc. However, when it comes to assessing the risk of cancer, we are more limited for most types of cancer.

As of today, many cancers are unfortunately diagnosed only when the person starts having symptoms, except for cancers such as cervical cancer, breast cancer, prostate cancer and colon cancer, for which there exists preventative diagnostic tests such as pap smears, mammograms, PSA tests, prostate exams and colonoscopies.

For many cancers, there are no screening diagnostic tests currently available, i.e., pancreatic cancer, ovarian cancer, etc. In most cases, the only information that we have that can be used to assess the risk of cancer is family history. This makes underwriting cancer risks for which there are currently no regular screening tests available more challenging, hence the reason for the 90-day exclusion periods added to the cancer (life-threatening) and the benign brain tumor definitions. This could all change eventually with liquid biopsies, but we are not quite there yet.

Exclusions and Ratings

CI policy wording usually includes contractual exclusions for the following situations, if they cause or lead to a covered condition:

- Committing or attempting to commit a crime.
- Using drugs other than as prescribed by a physician or as recommended by the manufacturer.
- Self-inflicted injuries.
- Suicide attempt.
- Operating a motor vehicle while under the influence of drugs or alcohol.
- Poisonous or toxic substance ingestion, other than alcohol.
- Gas inhalation, voluntary or not.

Exclusions can also be added at the time of policy issue by the underwriter when necessary, either because of family history or personal medical history of the applicant. Commonly used exclusions are:

- Breast cancer.
- Colon cancer.
- Prostate cancer.
- Multiple sclerosis (for which we would also exclude blindness, paralysis and loss of independent existence as they are all conditions for which the insured could claim should they be diagnosed with multiple sclerosis).

However, there could be others. The underwriter could also decide to exclude a specific avocation or travel to specific countries depending on the declarations of the applicant on their application form.

When using exclusion wording for CI, the idea is to exclude the covered condition for which we believe there is a high risk of claim and any other conditions that could be associated with it. Generally speaking, we aim to be as specific as possible and try to avoid adding exclusion wording that would be too encompassing, e.g., we would not exclude all cancers, only specific ones, as explained above.

Percentage extra ratings can also be added as we do when underwriting life insurance. The main dif-

ference is the maximum number of tables that can be added. For CI, since premiums are usually quite higher than for life insurance, we usually limit the extra rating from four (200%) to six tables (250%). It is possible for us to issue a policy with one or two exclusions plus an extra rating depending on the history of the applicant. For CI insurance, we do not use flat extra ratings.

How To Underwrite CI Insurance

Underwriting CI is very different from underwriting life insurance or disability insurance. When assessing a CI risk, the underwriter should always remember what risks they are underwriting the case for, which could be directly or indirectly related to the specific covered conditions that are defined in the policy. As I like to say, "Always remember what you need to worry about." This product pays only upon diagnosis of a covered condition and for some specific covered surgical procedures like coronary artery bypass surgery and aortic surgery. Any risks not directly or indirectly associated with the definitions are not covered.

Death and disability are not the main considerations when underwriting CI. An applicant who suffers from depression or anxiety would likely be considered as an unfavorable risk for disability insurance and possibly for life insurance, but as long as they don't represent an excessive risk of suicide, the applicant could still obtain a CI policy issued on a standard basis.

On the other hand, an applicant who is diabetic could be insurable for life insurance, but would have to meet very specific criteria to obtain CI coverage. In fact, most diabetics would end up being denied CI coverage in view of the excess risk they represent for many of the covered conditions/surgical procedures such as heart attack, stroke, major organ failure on waiting list or transplant (kidney), coronary artery bypass surgery, blindness, loss of limbs, etc. When underwriting for CI insurance, the underwriter always must ask, "What am I concerned with when assessing this case? Which covered conditions could this applicant's history lead to?" and so on. It is crucial for the underwriter to be familiar with the definitions of all the conditions and surgical procedures that are covered by the CI products that they are underwriting.

The key difference between life insurance and CI insurance is that once the policy is issued, the insured does not have to die in order for a benefit to be paid. For CI in particular, the beneficiary, who is most often the insured person, gets a significant lump sum, even if they quickly recover from their condition or surgery. Therefore, it increases the risk of anti-selection, and the underwriter has to be aware of that risk. Of course, in CI insurance, the consequences of an asymmetry of information or knowledge, with the applicant knowing about information that could be material to the risk that they don't disclose to the insurer, could result in early claims and affect overall morbidity experience. This can be true for any insurance product, but the negative consequences of such a situation would be seen much faster than they might for life insurance.

Juvenile CI Products

I would be remiss if I did not mention CI for children or juvenile CI insurance. In the Canadian market, juvenile CI is usually available to children ages 30 days to 17 years old, although some companies offer child CI products to children ages 15 days up to age 25. Typically, in addition to the 26 or 27 covered conditions included in contracts for adults as described above, juvenile CI covers:

- Cerebral palsy
- Congenital heart disease
- Muscular dystrophy
- Cystic fibrosis
- Type 1 diabetes mellitus

Some carriers also cover other conditions, such as autism.

Amounts being offered vary greatly, from a maximum of CAD$500,000 to CAD$1M.

When I started underwriting this product 25 years ago, I remember being trained to be extra vigilant when it came to juvenile CI. Many were questioning the need for this type of product. Why offer coverage to a child when they were not working and earning an income? The moment of truth for me came when a friend of my daughter, who was 11 years old at the time, was diagnosed with glioblastoma, a high-grade aggressive tumor in the brain. The diagnosis was made in September and she passed in June, after 9 months. The mother stopped working right away and did not work for at least 9 months, and the father stopped working for the last 6 months of his daughter's life. They had no income for a long time and another younger daughter at home to care for. Their daughter was sick, and they wanted, needed to be with her. This is when I understood the need for juvenile CI products. Children may not generate income, but the parents do, and if they need to stop working to care for a sick child, they need financial help during that period of crisis. This is what juvenile CI is for.

When underwriting juvenile CI, one aspect that it is important to consider is whether only one sibling out of many is being insured for CI while the others are

not. This could be a sign of anti-selection. We usually also like to know that the parents themselves have CI policies, and if they don't, we need to understand why that is. Are they uninsurable, and if so, why is that? Could this affect the insurability of the children?

Underwriting juvenile CI can be more difficult, as there are few available underwriting guidelines for this type of risk. Most guidelines available have been written based on adult risks, so underwriters are often left having to make decisions on their own. When looking at a juvenile case, don't be afraid to question and even decline, and offer to reconsider later if need be. It may be difficult to understand how a case will evolve over time.

Children are growing and often "grow out" of certain conditions, but it is often impossible to know which way things will go. I remember seeing a claim once for an 8-year-old boy. The application for CI had come in when he was 6 years old. At the time, despite having a normal build, he had been diagnosed with mild sleep apnea and was being followed for a learning disability. The policy had been issued standard by the underwriter since there were no guidelines for children with mild sleep apnea or for a child with a learning disability. This child was diagnosed with muscular dystrophy at age 8, which is a covered condition. We ended up paying a claim for CAD$150,000.

Personally, I would have declined (postponed) that case and would have reconsidered in 5 or maybe 10 years. There were two red flags with no proper explanation. A 6-year-old child with sleep apnea and no clearly established etiology? Combined with a learning disability? I would not have approved that application for CI insurance. All that to say, underwriters need to be even more careful with juvenile CI than for other products. If unsure, don't hesitate to consult your medical director or your chief underwriter and ask for an opinion.

The Future of CI Insurance

Did I mention that I am a big believer in living benefits products? Life expectancy has improved dramatically over the past 100 years. "There is a high probability that the first person to live to a thousand has already been born." So says one of the world's top aging scientists, British biomedical gerontologist Dr. Aubrey de Grey.[5]

Among US adults in 2019, 51% of 18- to 34-year-olds had no steady romantic partner.[6] The world is changing. In the 1950s and 1960s, people were getting married in their early 20s and had their first child soon after. They needed life insurance. Now that we are in the 2020s, we see more and more people remaining single until their late 20s and even later, buying a condo or a house by themselves, living their adult lives without any dependents.

I believe those people should make sure to protect their ability to earn an income for years to come. If you are single and you suffer from a serious illness or accident, you don't have a spouse to help with expenses, so you are basically on your own. Maybe your need is more CI insurance and less life insurance? Definitely some disability insurance! Our industry has been centered on life insurance for more than 100 years. The world has changed. Should we not evolve with it?

Of course, as mentioned above, when a critical illness hits, whether you are single, married or if it is your child who suffers from a serious illness, your financial situation is at risk. The last thing you should have to do is deplete your hard-earned savings, or worse, sell your house. This is why I believe that there is a place for CI insurance.

In my next article, I will share more with you about the Canadian CI experience and our learnings after 25 years of selling CI insurance.

Notes

1. https://insurance-portal.ca/article/critical-illness-insurance-pioneer-dr-marius-barnard-dies-at-87/.
2. www.linkedin.com/pulse/story-critical-illness-insurance-rakesh-radhakrishnan/.
3. Canadian Life and Health Insurance Association Inc., Reference Document: Critical Illness (CI) Benchmark Definitions, May 2009.
4. Canadian Life and Health Insurance Association Inc., Reference Document: Critical Illness Benchmark Definitions (CIBD), (October 2013).
5. www.scmp.com/magazines/style/well-being/article/3075102/can-we-live-be-1000-years-old-how-science-mission-slow.
6. www.washingtonpost.com/lifestyle/2019/03/21/its-not-just-you-new-data-shows-more-than-half-young-people-america-dont-have-romantic-partner/ (source of the stat: General Social Survey conducted by NORC at the University of Chicago).