

Multi-pay Critical Illness Products in Asia

by Orchis Li, Gen Re, Hong Kong

Multi-pay critical illness (CI) products were first introduced in the Hong Kong market in 2008. It has since become a mainstream product, often one of the top-selling products for most companies in Asia. Although there has been some research on a second cancer, experience is scarce and the industry approaches this valuable coverage with caution.

First-generation product: separate grouping and five-year cancer-free waiting period

The first multi-pay CI prototype typically provides up to three claims on major events. Critical illnesses are divided into five groups: cancer; cardiovascular diseases; illnesses related to the nervous system; organ failure; and others. Each of the CI claims cannot be claimed from the same group – except for cancer.

If the immediately preceding claim is cancer, there would typically be a requirement of a five-year cancer-free waiting period in between claims. To be eligible, the second cancer has to be a new cancer that is not related to the first diagnosis.

As can be seen, the design has a number of good risk management practices to ensure that much-needed protection for distinct major events is in place while the incidence is manageable at a reasonable premium level.

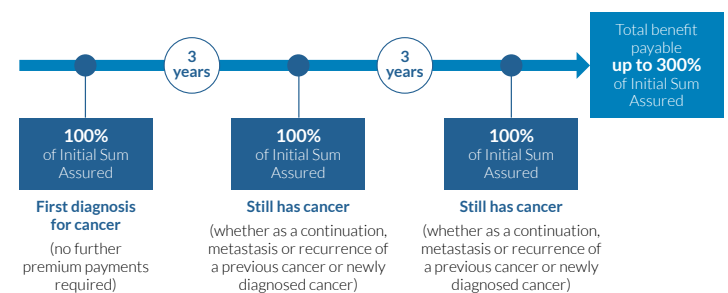
However, to date, the volume of second and third claims from this cohort of products is still not enough for us to generate credible results and we await further insight in managing this risk.

Current product: new/recurrent/metastatic/persistent cancer coverage

Product cycle is short in Asia and competition is fierce. Since these products were introduced the industry has launched many richer versions of multi-pay CI products. The major changes are as follows:

- Focus on cancer, heart attack, and stroke instead of five groups of diseases.
- Instead of covering for new cancer only, comprehensive coverage spans from newly diagnosed to recurrent, metastatic or persistent cancer.
- Waiting period for repeated cancer claims shortened to three years from diagnosis date (we have also seen products with a one-year waiting period).
- Multi-pay products typically provide at least three claims for cancer and two claims for heart attack and stroke (waiting period for heart attack and stroke is one year).

Coverages for multiple cancers are as follows



Source: Gen Re, based on knowledge of products sold in the market

Long-term guarantee risks

Product structure

Insurance companies often look for guaranteed reinsurance solutions to manage this risk. Other than future incidence rates especially for cancer being uncertain, product structure and features make managing future risk of multi-pay CI particularly difficult.

In Asia, multi-pay CI is often offered as a whole life¹ limited pay² level premium product with issue age from 0 to 65. Although most products do not offer premium guarantees, the industry has never increased premium rates in all these years and premium cannot be increased once the policy has been paid up. Moreover, products in the market usually offer future premium waiver once the first major event has been claimed.

Medical advancement

Over the last few decades, advances in screening technologies and treatments have led to earlier detection of cancer and improved outcomes and survival rates. In some cases, advancement in cancer detection technologies is debatable, whether it is a case of overdiagnosis and whether for insurance purposes leading to payment of major events that are no longer critical and certainly not included in the current pricing of CI products.

As cancers are detected at earlier ages³ and survival rates⁴ have improved, this also means the chance of having a second or even third cancer has increased⁵, and this trend may continue in the future.

Cancer trends

Although some major cancers have a stable or even decreasing trend, from our 2015–2019 Dread Disease Survey for the Hong Kong market, we do see worrying trends from particular cancer sites. For example, the incidence rate of breast cancer for women has increased by 50% in the past 15 years, and we have not observed any slowing down of this increase.

Another example is thyroid cancer, incidence of which has risen by more than twice and six times for women and men, respectively, in just five years⁶.

Weak definitions

The definition of cancer under CI products is intended to cover cancer that is life-threatening and a major financial burden to the patient. However, with the advancement of medical technologies for cancer screening, more minor cancers may be detected throughout one's lifetime. CI benefit triggers may not be able to match the level of "criticality" intended by the pricing assumption.

Most regions in Asia have standardised definitions for CI. Some may not allow timely changes to definitions in light of medical developments, and this will be a bigger risk to products with guaranteed features.

With many uncertainties in multi-pay CI products, it is essential for the insurance industry to maintain flexibility to manage this long-term risk, both for new products and for in-force policies.

About the Author

Orchis Li is the General Manager of Gen Re's Hong Kong Branch. She joined Gen Re in 2015 and has more than 20 years of experience. Orchis is responsible for the management of the Hong Kong branch and MNC's client relationships. Orchis is also responsible for driving forward Gen Re's insurtech strategy in Asia and the analytics & development of Critical Illness products for the Asian markets.

Orchis is a Fellow of the Institute of Actuaries. She is a Life Insurance Councillor with HKFI and is a member of various committees under ASHK. She has also been appointed as a member of the IAC with the Insurance Authority.

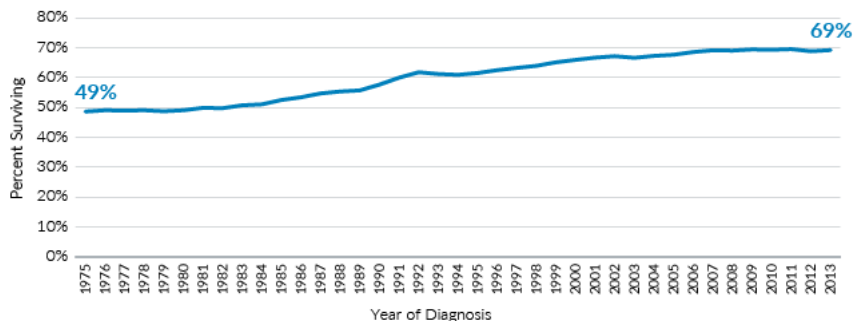
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Endnotes

- 1 At least age 100, some up to age 120/130 or even without any maturity age
- 2 The premium payment term of these limited pay whole life product could be as short as three or five years, typically policyholders choose ten to twenty years' payment term.
- 3 According to British Journal of Cancer's Incidence Trends for Twelve Cancers in Younger Adults (accessed 15 June 2022), there is consistent evidence that a number of cancers (colorectal, breast, pancreas, kidney and uterine) is showing an increasing trend in younger age groups.
- 4 According to National Cancer Institute's "Cancer Trends Progress Report", the five-year survival rate for all cancer sites has improved from 49% in 1975 to 69% in 2013.

5-year Relative Survival Rate for All Cancer Sites (Both Sexes)



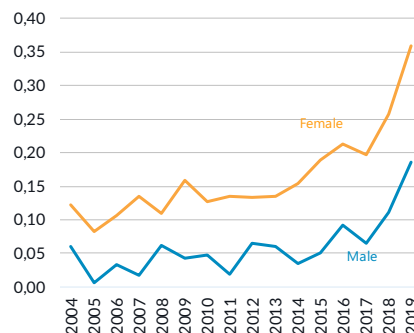
Source: <https://progressreport.cancer.gov/after/survival> (accessed 15 June 2022)

- 5 According to American Society of Clinical Oncology's article on The rising incidence of second cancers (accessed 15 June 2022), the occurrence of second cancers has risen dramatically from 9% in 1975–1979 to 19% in 2005–2009
- 6 Gen Re's Dread Disease Survey 2015–2019: Result for Hong Kong Market

Breast Cancer Incidence Rate



Thyroid Cancer Incidence Rate



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