

Critical Illness Insurance: In Search of Its Identity

Timothy Meagher, MB, FRCP(C)

Critical illness insurance is a complex type of coverage that does not enjoy wide appeal. Insurers around the world are introducing different strategies to attract consumers. This article explains why these changes are problematic and why insurers may be losing sight of the core value of critical illness insurance.

Address of Correspondent: 1000
Rue de la Gauchetière Ouest,
20^e étage, Montréal Québec,
H3B 4W5; 514.392.5069;
tmeagher@munichre.ca

Correspondent: Timothy
Meagher, MB, FRCP(C).

Author Affiliations: Meagher-
Vice-President and Medical
Director, Munich Re, Montréal;
Associate Professor of Medicine,
McGill University, Montréal,
Québec.

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Critical illness insurance has existed for 4 decades. At this point it ought to be in full bloom, attracting ever more purchasers, as its undeniable value resonates with both brokers and consumers. But this hasn't happened. Sales are sluggish and the addition of bells and whistles to increase attractiveness has had a variable impact. Amongst the reasons, product complexity and technical disease definitions are frequently cited. The high cost is also a deterrent. In Canada, critical illness insurance has run afoul of a regulatory watchdog, which identified a series of shortcomings, ranging from overly complex products that disadvantage consumers, to excessive claim denials.¹ It's not surprising, then, that enthusiasm for critical illness insurance is somewhat lukewarm. So, what ails?

First, a look at the critiques: complexity and denial rates. Complexity is explained by the technical nature of disease "definitions" (the

detailed descriptions of the medical conditions covered by the policy), compounded by the many restrictions (exclusions of minor disease variants) that typify critical illness policies. Apart from reducing the number of covered conditions, this complexity is not easily mitigated; it is an intrinsic feature of critical illness policies. In Canada, repeated retooling of disease definitions, to make them more understandable, has provided a modest impact.³ If anything, critical illness policies have become more complex with time. Medical advancements will make disease definitions even more intricate, as earlier diagnoses will identify minor variants of critical illnesses that will require exclusions.

The critique that claim denial rates are high is challenging to substantiate, in the absence of a benchmark. In Canada, the claim denial rate for critical illness insurance is comparable to that of disability insurance. However, the

relevance of this comparison is questionable; critical illness and disability insurance are fundamentally different products. An analysis of rejected claims shows that claims for medical conditions not covered in the policy are frequently submitted. Such submissions reflect a lack of customer and broker understanding, perhaps again explained by policy complexity. Nevertheless, frequent claim denials lead to unhappy consumers and eventually attract negative press. Neither is a recipe for success.

So, how does one address these critiques and make critical illness more attractive? Various countries have adopted different strategies. In Canada, improvement efforts have focused on updating disease definitions with an emphasis on the use of consumer-friendly language. In the same vein, the Canadian Life and Health Insurance Association has recently published a consumer guide that aims to demystify the many misunderstood aspects of critical illness insurance, including a clarification of its value and a description of its limitations.²

Insurers in other countries have opted to increase the number of covered conditions to broaden appeal. In China, critical illness policies may cover over 150 conditions, while in Canada and the United Kingdom, 20-30 conditions are customary. Not surprisingly, these additions come with increased complexity, as each condition requires a definition, and at times, exclusions. At present, it is unclear whether adding conditions has enhanced attractiveness or increased customer satisfaction.

Another approach is to modify critical illness insurance policies to provide an indemnity to as many claimants as possible. Different flavors of this approach exist. In some countries, covered conditions have been 'tiered' by severity level, with less severe variants meriting reduced payouts. In others, reduced payouts are provided for the minor disease variants (exclusions) that are typically denied at claim time. These 'partial payouts' have gained some traction in Canada but remain limited in number. The appeal of this approach lies in its simplicity; it avoids the complexity of multiple

tiers mentioned earlier, and it may reduce disappointment at claims time.

Reduced payouts inevitably ignite a debate about the fundamental role of critical illness insurance. One camp will argue that critical illness insurance's sole purpose is to prevent financial ruin in the face of a costly, life-threatening condition; its express purpose when introduced in South Africa.⁴ In this viewpoint minor illnesses should be excluded; their correct home is elsewhere, perhaps in a 'Minor Illness' policy. They might also advance that in a wealthy country, especially one with publicly funded health care, critical illness insurance has a limited, if any, role. This camp might also argue that the amount of critical illness coverage should be limited, in sharp contrast to the large amounts that are presently available. The opposing camp will retort that critical illness insurance, even in wealthy countries, is a valuable resource. When a critical illness strikes, it can cover expenses such as home retrofitting, adapted transportation, and medications not covered by public insurance. And, it can alleviate the pressure to return to work, when the focus on the success of rehabilitation is paramount. From this camp's perspective, reduced payouts, to the extent that they may increase customer satisfaction, may be salutary.

The diverse trajectories of critical illness insurance worldwide undoubtedly reflect variations in market dynamics, likely shaped by different healthcare systems and different private insurance options. Thus, an initiative in one country may be unsuitable in another. However, the increasingly ubiquitous trend of indemnifying policyholders for minor illnesses, regardless of the route chosen, raises concerns. Insurers taking this path must ask themselves these questions:

- Does including minor illnesses and reduced payouts dilute the core purpose of critical illness insurance?
- Could broker and consumer education about the true role of critical illness insurance, along with a careful explanation of its limitations, ensure that it is purchased for the right reasons, and thus reduce dissatisfaction at claims time?

- Might this latter approach obviate the need to add product features that conflict with core purpose?

Inadequate discussion of these questions puts the very identity of critical illness insurance at risk.

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