

Demonstrating the Value of Critical Illness Insurance

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“What is your value proposition?” As an executive or manager, this is probably a question you’ve asked your suppliers, vendors, or consultants. You would like to know why you should choose them over another and what you are getting for your money that others are not offering.

I expect that consumers ask the same questions when they are offered new insurance products. This is especially true for middle-market consumers who have limited discretionary income. Now, as we introduce them to yet another product, we must be prepared to answer their questions and demonstrate the value of critical illness (CI) insurance.

There is a distinction between showing need and demonstrating value. Within our industry, it is easy to show a client a gap in their existing coverage, the danger of not addressing that gap, and the need to purchase a product that closes that gap. Outside of our industry, we are inundated with advertising messages telling us we need global positioning in our vehicles and we need a high-definition television. Showing need is easy.

Demonstrating value, however, is more difficult because it forces us to describe not only the needs the product meets but also why the consumer is better off purchasing this product versus others. Demonstrating value is necessary because consumers are making choices due to their limited budgets. These choices are not only between different financial products. They also span various services and industries. Sometimes, consumers will designate only a specific portion of their budget to financial products, further reducing their propensity to purchase our products. A consumer from Connecticut demonstrates this sentiment during a focus group on CI insurance:

I pay so much into [insurance]. I like to take my money and enjoy it. I save. I put money into the checking account. I pay for my insurance that I have now: medical, life insurance for my wife and me. This is what I'll put aside for it. The rest of it, I want to be able to enjoy my life.

Consumers can learn about the unique value of CI insurance as well as its incremental value. The unique value describes the risk that it protects against, a risk that did not exist in the past. It also describes the product’s ability to provide a worthwhile benefit that consumers could not reasonably self-fund.

The incremental value is the protection CI insurance provides that no other insurance offers. It is the fourth “leg” of insurance; along with life, disability income, and long-term care, it creates the support many households would find comforting.

Consumers’ reactions and objections to CI insurance form the basis for the argument that we need to help them better understand the product’s value. In a series of focus groups LIMRA conducted in the summer of 2004, participants revealed that they saw the need for CI coverage but

also presented numerous objections for purchasing it. A review of their objections will illustrate how we can demonstrate value.

UNIQUE VALUE The unique value of CI insurance stems from its design to assist those who *survive* a critical illness and to pay a lump-sum payment for the beneficiary to use for *whatever purpose* he or she wants. These characteristics are quite different from other insurance products that consumers are used to. For this reason, consumers are more skeptical of the product and may have more difficulty understanding the value of owning a policy.

Emphasizing the benefit to survivors should be a key component of the sales approach. In focus groups, participants often had to be reminded that the benefit was for them to use during their recovery period. They tended to discuss the benefit as if their family was using it rather than themselves.

Detailing the history of the CI product helps consumers understand the product and reduce cynicism. Ken Smith, the director of Critical Illness and Disability at Assurity Life Insurance Company, relates how sales increased at his company when producers explained to prospects how the product was developed by a physician who saw firsthand how survivors of critical illnesses were subsequently more likely to file for bankruptcy because of the financial hardships experienced after their illness. When this approach was applied to the focus group setting, consumers reacted less negatively, as they realized the product was not simply the latest scare tactic from the insurance industry and could understand the philosophy behind the product.

The unique value of CI insurance is also established by linking the benefit payout to something that is valued by the consumer. Simply telling them they can use the benefit for anything they want does not provide a value proposition. Perhaps the thought of losing their home is their greatest fear. To manage this, describe a situation where the benefit pays the mortgage for at least 12 consecutive months while they recover. Or, if a client already carries sizeable credit card debt and this is a concern, producers can sell the benefit of having their credit card bills eliminated. Of course, what the client ultimately ends up using the benefit for is still their decision, but the policy is sold by focusing on the most valued aspects of that client’s life.

Attaching the benefit to a specific bill or item alleviates complaints that the benefit amount is too low. Some focus group participants felt the benefit should be increased, some said as much as tenfold. While policies providing a benefit greater than \$100,000 are available, most would be cost-prohibitive to middle-market consumers. And while some higher-end producers could sell the policy on the merit of paying off a mortgage, it may be more realistic to focus on managing payments during recovery instead of trying to eliminate the entire balance.

Consumers will more easily perceive value if they see examples of how the benefit has been used. Study participants reported they prefer to learn about the usefulness of CI insurance through

personal stories rather than morbidity statistics. In addition, some felt illustrating how a policyholder used their benefit would have a greater impact on their decision to purchase a policy. A woman in Omaha states her opinion:

I think, if included in that personal story were some numbers as to how much one of those situations set them back. If somebody had a heart attack, this is how much I ended up paying out of my own pocket and this is how critical illness insurance covered that for me. Put a real number on what one of those [illnesses] would do to you.

Many of those reacting negatively believed they would find greater value in saving their own money to self-fund rather than paying the premium for a CI product. If they started young enough, they expected to be able to save as much money as they would receive in a benefit payout.

Their expectations are misguided. Simple mathematics show that it could take over 40 years of saving premium dollars to accumulate as much as you would receive from a policy payout. This is assuming a \$300 annual premium for a \$30,000 benefit. This also assumes the consumer religiously deposits \$300 a year into his or her account and earns a 4 percent interest rate.

Producers can demonstrate the value of CI insurance by illustrating how self-funding will not work. They could use a hypothetical example of someone who expected to save the money but then was stricken well before he or she had accumulated enough assets. They can also show the math to clients.

Unfortunately, consumers are not always rational buyers. Research in the field of behavioral economics shows that people do not logically assess probabilities when making decisions about investment purchases. We can't expect them to be convinced simply based on one argument. After describing the unique value of CI insurance, we will also need to explain its incremental value.

INCREMENTAL VALUE Arguments for CI insurance typically describe the gaps in other insurance products when someone experiences a life-threatening illness. For example, disability income (DI) insurance pays only a portion of the policyholder's income. Similarly, medical insurance typically requires a consumer co-payment and often includes a deductible. Finally, life insurance provides a benefit only if the policyholder dies. Thus, the incremental value of CI insurance can be described by outlining the shortcomings of other products.

The greatest barrier in focusing on incremental value is the limited discretionary income of many households. They might agree that the gaps exist and CI insurance would be a viable solution. But if they are forced to make decisions about what to spend their money on, CI insurance is likely not top-of-mind. A woman who participated in a focus group in Omaha describes her current financial situation:

I want to take care of my children's college education, so I would be paying education for three kids. We have continued medical bills from the [recent cochlear] implant. The last goal was an IRA and putting away for our retirement. So when I look at those three things [long-term care, DI, and CI insurance], and daily bills, when I look at my financial goals and concerns, these are just not on my concern list because I have to meet other needs that are more important to me.

Once cognizant of the trade-offs that consumers have to make, producers might better prepare to sell CI insurance by presenting to their clients the greater risks faced at their current stage in life. A small

\$25,000 CI policy offered through the worksite might be adequate to alleviate fears of financial hardship after experiencing a critical illness and leave enough disposable income to purchase a DI product.

Combining products can provide consumers with the added value of CI insurance along with the key benefits of other coverages. Focus group participants themselves have offered creative product solutions that they feel would more adequately meet their needs. For example, one gentleman from Connecticut suggested the following:

Earlier on [in life], if there were some universal plan that you paid a fixed monthly premium so that between ages 30 and 60, you had more [critical illness] insurance. Then at age 60 or 65, it switched over to life insurance for the same premium. They were more combined so you were deciding on the amount of premium that you were spending and not have to make a decision on this policy or that policy, but they were all wrapped up together to a life-style policy.

Of course, they are not aware of the many actuarial and regulatory constraints product developers face. But perhaps their suggestions might tickle another idea for your company.

COMMUNICATING VALUE The task of communicating the value of CI insurance requires a personal touch to be effective. In most cases, this would mean a face-to-face meeting with a personal agent or a meeting at the worksite. Despite the simplicity of the product, focus groups consider an agent to be the best way to learn about it because of low consumer awareness of the product. Direct methods of selling will not lead to the critical mass of sales the industry is seeking, at least not in the short term.

The personal contact will give consumers the opportunity to ask questions. Two key issues that consistently arose across all 10 focus groups were family history and how diagnoses are made. With respect to family history, consumers want to understand how a family history of a particular illness impacts the premiums or their ability to get coverage at all. A female participant from Phoenix asked:

How is this underwritten? If you have a history of heart attack or cancer in your family, then what's the likelihood you're going to get a decent rate on insurance like that? If only those that have that concern are going to get this insurance, then I don't know that it's going to end up being affordable to be something that's worthwhile getting.

A significant proportion of consumers can recall a family member who has experienced a life-threatening illness. They are interested in CI insurance protection but are concerned they would be unable to get coverage because of their family history or because the premiums would be cost-prohibitive.

Another issue raised in numerous groups is how diagnoses are made. Participants appear skeptical of the simplicity of how a benefit is triggered and expect to find exceptions and complications in the claims process. For this reason, producers need to understand that definitions (i.e., indicators of illness) are clear-cut. They should be well versed in the definitions and able to communicate them with confidence to prospects.

The role of marketers and producers is to show consumers that CI insurance provides value. Understand what consumers value and match the benefit of CI insurance to that. Describe the unique qualities of the product, the risks that consumers face, and the benefit they'll enjoy from surviving not only their illness but the financial roller-coaster ride as well. 🌐