



THE EVOLUTION OF CRITICAL ILLNESSES PLANS

BY **CHAN KIM HENG**

(AFC, AWP^{CM}, FCHFP, CFP[®])

ASSOCIATE DIRECTOR
FIRST PRINCIPAL FINANCIAL



Whole Life and Term insurance at its most basic cover, provides protection in the event of death of the life assured only.

Over the years, consumers grew more sophisticated and their needs changed. They wanted a preventive insurance plan that would provide a sum of money for the treatment of critical illnesses such as cancer or kidney failure in order to avoid the heavy financial burden associated with the care of managing such illnesses. This demand from the consumers brought about the first major illness/critical illness (CI) plans in the late 1980s.

With the advancement of medical science, some illnesses which used to be deemed as 'death sentence' became treatable and the life insurance industry expanded the initial list of 10 critical illnesses to 26 and finally to 30 in the 1990s. However, the definition of CI was different between companies across the industry. For example, a policy holder who was diagnosed with cancer could claim from Insurer A but not from Insurer B using the same medical report because the definition from Insurer A was less stringent than Insurer B. That problem was put to an end when the Life Insurance Association of Singapore decided that the definitions of all 36 illnesses covered under the CI benefit would be the same across all 12 life and 9 general insurers providing CI benefits in Singapore in July 2003.

Although the definitions of the 30 CI are the same, the list of 30 CI across companies varied (Refer to Table 1). One of the great advantages an Independent Financial Adviser (IFA) can bring is the ability to mix-and-match a CI coverage to be more comprehensive. For example, if you need a CI cover of \$200,000, the IFA can provide a CI plan from AVIVA \$100,000 & NTUC Income another \$100,000. If Alzheimer's Disease strike, a claim of \$200,000 can be made from both insurers. However if a claim is due to Apallic Syndrome, AVIVA will pay \$100,000 and if it is due to Bacterial Meningitis, NTUC pays the \$100,000. This arrangement benefits the life assured because whilst the coverage remains the same, the list from one insurer complements another, thus the total CI list may increase from 30 within a company to 36 across the companies.



TABLE 1: CI OF RESPECTIVE INSURANCE COMPANY

NAME	AIA	AVIVA	AXA	GE	HSBC	Manulife	NTUC	Prudential	Tokio Marine
1 Alzheimer's Disease / Severe Dementia	✓	✓	✓	✓	✓	✓	✓	✓	✓
2 Angioplasty & Other Invasive Treatment For Coronary Artery	✓			✓		✓	✓	✓	
3 Apallic Syndrome		✓	✓		✓				
4 Aplastic Anaemia	✓	✓	✓	✓	✓	✓	✓	✓	✓
5 Bacterial Meningitis	✓	✓		✓		✓	✓	✓	✓
6 Benign Brain Tumour	✓	✓	✓	✓	✓	✓	✓	✓	✓
7 Blindness (Loss of Sight)	✓	✓	✓	✓	✓	✓	✓	✓	✓
8 Coma	✓	✓	✓	✓	✓	✓	✓	✓	✓
9 Coronary Artery Bypass Surgery	✓	✓	✓	✓	✓	✓	✓	✓	✓
10 Deafness (Loss of Hearing)	✓	✓	✓	✓	✓	✓	✓	✓	✓
11 Encephalitis	✓		✓		✓	✓	✓	✓	✓
12 End Stage Lung Disease	✓	✓	✓	✓	✓	✓	✓	✓	✓
13 Eng Stage Liver Failure	✓	✓	✓	✓	✓	✓	✓	✓	✓
14 Fulminant Hepatitis	✓	✓	✓	✓	✓	✓	✓	✓	✓
15 Heart Attack	✓	✓	✓	✓	✓	✓	✓	✓	✓
16 Heart Valve Surgery	✓	✓	✓	✓	✓	✓	✓	✓	✓
17 HIV Due to Blood Transfusion and Occupationally Acquired HIV	✓	✓	✓	✓	✓	✓	✓	✓	✓
18 Kidney Failure	✓	✓	✓	✓	✓	✓	✓	✓	✓
19 Loss of Independent Existence									
20 Loss of Speech	✓	✓	✓	✓	✓	✓	✓	✓	✓
21 Major Burns	✓	✓	✓	✓	✓	✓	✓	✓	✓
22 Major Cancers	✓	✓	✓	✓	✓	✓	✓	✓	✓
23 Major Head Trauma		✓		✓	✓	✓		✓	
24 Major Organ / Bone Marrow Transplantation	✓	✓	✓	✓	✓	✓	✓	✓	✓
25 Motor Neurone Disease	✓	✓	✓	✓	✓	✓	✓	✓	✓
26 Multiple Sclerosis	✓	✓	✓	✓	✓	✓	✓	✓	✓
27 Muscular Dystrophy	✓	✓	✓	✓	✓	✓	✓	✓	✓
28 Paralysis (Loss of Use of Limbs)	✓	✓	✓	✓	✓		✓		✓
29 Parkinson's Disease	✓	✓	✓	✓	✓	✓	✓	✓	✓
30 Poliomyelitis			✓						✓
31 Primary Pulmonary Hypertension	✓	✓	✓	✓	✓	✓	✓	✓	✓
32 Progressive Scleroderma		✓							
33 Stroke	✓	✓	✓	✓	✓	✓	✓	✓	✓
34 Surgery to Aorta	✓	✓	✓	✓	✓	✓	✓	✓	✓
35 Systemic Lupus Erythematosus with Lupus Nephritis						✓			
36 Terminal Illness	✓		✓	✓	✓		✓	✓	✓



The coverage for critical illness is usually purchased by including a critical illness rider in the basic life plan. The disadvantage of this rider is that it can be terminated if the policy holder decides to exercise a Non-forfeiture Option such as a Reduced-Paid Up or Extended Term provision. This issue was greatly minimised in the 1990s when insurance companies launched their Limited Payment Whole Life plans which embedded critical illness benefits.

Critical Illness plans have improved greatly in the past two years. Insurance companies not only embedded critical illness into a limited-pay plan, it also included a raised-minimum death benefit which applies for critical illness as well. One such plan is the limited whole life plan from AXA Life known as the "Life Essentials". It guaranteed an immediate insurance cover of up to 3 times the basic sum assured till age 70 (basic if the assured purchased the plan from age 1-44). The payout will be 6 times if the death is due to accidental reasons before age 70. What this means is that if a policy holder aged below 44 bought this plan with a \$100,000 cover and makes a successful claim on critical illness before age 70, the pay-out will be \$300,000 or \$600,000 if it is due to accidental death. One unique feature about this plan is that Total & Permanent Disability covers up to age 70 while the market practice is only up to age 65. The premiums should obviously cost more for such a plan but instead of raising premiums, a drawback of such plans is that cash values tend to be lowered instead, especially when compared to a typical whole life plan with no raised-minimum death benefit. However, do not be overly concerned as the primary objective of a whole life insurance policy is meant for protection rather than profit. It is better to manage the cost of this policy by the reduction of cash values than to increase premiums.

The development of CI plans did not stop here. In the past, most patients seek medical consultation only when they are sick or show symptoms of illnesses. This resulted in CIs being diagnosed at the later stage. Today, more people seek preventive medical care and conduct annual medical checkups regularly and voluntarily. It used to be costly and inaccessible to conduct medical test such as pap smears or mammograms or such blood test. These tests are much more affordable and easily accessible these days. This results in the detection of critical illnesses at a much earlier stage.

The good news is that critical illnesses detected early can have a high recovery rate but the bad news is that treatment can be costly and bring about a financial burden on the patient's families. There are also patients who want to take a break from their hectic work life to manage their illnesses, thus taking a cut in salary. These events will further affect the families' finances and an insurance cover will really come in handy.

For a critical illness claim to be admitted, it must be at an advanced stage of diagnosis. Many policy holders were unhappy with this and wanted an insurance policy where a claim can be made at an early stage of diagnosis. Thus, insurance companies now provide Early Payout Critical Illnesses (ECI) plans to meet consumer demands. An example is "NTUC Vivocare", which is an ECI plan works is illustrated below.

KIDNEY FAILURE

EARLY STAGE

- Surgical removal of one kidney

The complete surgical removal of one kidney necessitated by any illness or accident. The need for the surgical removal of the kidney must be certified to be absolutely necessary by a nephrologist. Kidney donation is excluded.

INTERMEDIATE STAGE

- Chronic kidney disease

Chronic kidney disease with permanently impaired renal function diagnosed by a specialist in the relevant field, with laboratory evidence of severely decreased with an eGFR level of less than 15 ml/min/1.73m² body surface area, persisting for a period of at least 6 months.

ADVANCED STAGE

- Chronic irreversible failure of both kidneys requiring either permanent renal dialysis or kidney transplantation.

A traditional CI plan will only admit a claim at an Advanced Stage but an ECI plan like NTUC Vivocare will admit a claim even if it is in the Early Stage.

It will pay 50% of the sum assured up to \$75,000 if critical illness is diagnosed at the Early Stage and if the critical illness develops into an Intermediate or Advanced Stage, 100% of the remaining balance with bonuses will be paid.

The expansion to cover critical illness from an Advanced Stage to Early and Intermediate Stage effectively increased the possibility for claims from 30 illnesses to as much as 70!

AS THE BENEFITS VARY ACROSS DIFFERENT INSURANCE COMPANIES, IT IS RECOMMENDED THAT YOU SPEAK TO YOUR FINANCIAL ADVISER TO DETERMINE THE MOST SUITABLE PLAN FOR YOUR NEEDS.

FIRST PRINCIPAL FINANCIAL PTE LTD

Company Registration No. 199702254W

24 Raffles Place #14-02 Clifford Centre Singapore 048621

Tel: 6220 5333 Fax: 6220 5377

Email: enquiry@firstprincipal.com

www.firstprincipal.com