

Breaking Through

All the signs are there for a big uptake in critical illness, disability and long-term care insurance, yet recent premium numbers show disappointing declines or marginal growth. Despite a rapidly aging population and a health-care system some say is in crisis, insurers and advisors can't seem to break through with living benefits products. As **Craig Harris** reports, many argue a different approach is needed to pop the bubble of consumer complacency

Of all the industrialized countries, Canada has one of the fastest population growth rates for seniors. Those aged 65 and older are expected to triple in Canada in the next 30 years as the infamous boomers move on in years. Health Canada says the senior population is expected to reach 6.7 million in 2021 and 9.2 million in 2041, or nearly one in four Canadians. These facts, coupled with the media's regular documenting of our health-care system's shortfalls, would lead one to believe that living benefits insurance is primed for a big sales spike. There is only one problem: those pesky premium figures.

According to LIMRA, annualized premiums over 2006 and most of 2007 for individual critical illness (CI), long-term care (LTC) and disability insurance (DI) have been flat or declining compared to previous years. For example, annualized premiums for CI decreased five per cent in 2006 from the previous year and declined three per cent over the first three quarters of 2007. Similarly, DI numbers have shown decreases or marginal growth over the last three years, with year-over-year annualized premium percentage changes of minus two per cent in 2005, flat in 2006 and six per cent as of third quarter 2007. At the end of 2006, there were only about 56,000 Canadians holding LTC coverage, with annualized premium of about \$65 million. This premium was down by 16 per cent compared to 2005.

"The LTC market, for example, is very slow," notes Sean Long, a Toronto, Ont.-based living benefits consultant who provides marketing and underwriting support to insurance companies. "There is more ice cream sold at Laura Secord in a day than we sell across the country."

On the CI side, "Canadians just don't understand the benefits we have with this product," says Corry Collins, CFP, CLU, CH.F.C., RHU, founder of Halifax, N.S.-based Living Benefits Atlantic Limited. "I have had agents from the U.S. say, 'if we had that type of product here, we would go crazy with it.' And yet, we are not selling it head over heels."

"In my view, the value of CI is not being put forward effectively enough to clients," says Alfonso Franco, RHU, CEO of the Critical Illness Insurance Centre in Victoria, B.C. "Look at the marketplace — we have 33 million people and how many policies are being sold? The opportunity exists; the question is, how are we going to do that most effectively?"

The paradox that is living benefits in Canada illustrates the need for a new direction in advisor training, company marketing and consumer awareness, according to many sources. In specific product areas, Canada offers a range of benefits that match or exceed those provided in other countries, such as return of premium and extensive covered illnesses for CI, unique niche programs for DI and leading-edge LTC policies. Yet, the number of policies sold has been modest at best. For example, there were only 85,000 CI policies sold in Canada in 2006 and just over 59,000 sold by the third quarter of 2007.

Sources point to a host of reasons for the slow take-off of living benefits products in Canada, including poor advisor training, inconsistent company marketing, product complexity, underwriting issues and lengthy claims handling or disputes.

But one of the main reasons behind flat growth is consumer perception of living benefits insurance, especially the assumption that all long-term care services are covered by Canada's universal health plan. There is also a common reluctance to plan and budget for the aging process.

A recent report by Manulife Financial showed that most consumers (seven out of 10) would rather have an annual physical checkup than discuss their long-term care needs for an hour. According to a poll released last November, only 21 per cent of Canadians have factored long-term care costs into their retirement planning. Another study done in 2002 by Ipsos-Reid on behalf of RBC Insurance discovered that less than half of Canadians polled had ever heard of long-term care insurance.

“I have been through the evolution of lots of living benefits insurance products in the marketplace,” says Terry Zavitz, CFP, CLU, RHU, REBC, president of Zavitz Insurance Inc. in London, Ont. “The same thing tends to happen. Until people are inundated with the words and understand the concepts, it is hard to get buy-in — no matter how good you are at identifying the need and then presenting the product.”

The same can be said for many advisors in terms of knowledge of living benefits products in Canada, according to several sources. They emphasize a strong need for more resources and better training rather than simply promotional product seminars.

“The first challenge for advisors is that they don’t generally know enough about the long-term care health discipline,” says Karen Henderson, founder and CEO of the Long Term Care Planning Network, a national resource centre located in Toronto, Ont. “If you don’t understand something or can’t answer questions about it, you are not going to embrace it. So advisors really need to become familiar with how their provincial health-care system works, what is and what isn’t covered in long-term care.”

“Advisors only really learn once they start selling and generally avoid what they don’t know,” observes Collins.

The resources that insurance companies are willing to put into marketing living benefits is another issue that has stalled sales. A handful of insurers offer LTC insurance, with the 2006 report from LIMRA showing seven Canadian companies contributing to the survey. For CI and DI insurance, more than 20 companies sell these products, but the issue is how active they are in terms of advisor and consumer marketing.

“Some companies have the products and they are not doing much with them,” notes Franco. “My advice to those companies is to get out of the marketplace. Let the ones who are serious about it spend the money, educate the agents and receive the benefits of the business. There is no use putting this on the shelf just for the sake of having it.”

Product complexity and underwriting are issues that have plagued the living benefits field for years, including lengthy application forms, variable illness definitions and unclear screening procedures. According to Munich Re’s annual survey of the CI market, 30 per cent of applications require an Attending Physician’s Statement, which can cause further delays in processing. The same survey shows placement rates for CI have dropped from 75 per cent in 2003 to 71 per cent in 2005.

“The most common complaint you hear from advisors is underwriting,” says Long. “They get too many declines, too many rated cases. Agents don’t want to get one policy for every 20 applications they send in; it is wasting too much of their time. Where the companies and industry have really fallen down is on underwriting.”

And then there is claims handling. The central benefit of any living benefits policy is the willingness and ability of the insurer to pay the claim. However, this depends on the definitions set out in the policies and, with products like CI and DI especially, there is room for interpretation in “illnesses” as varied as Parkinson’s Disease or coma. One reinsurer survey in 2001 showed that 15 per cent of CI claims were denied.

It is not just the denials, but the claims handling process that can be frustrating for consumers. “It can get very complicated and require both a lot of paperwork and followup with doctors and health-care workers,” explains Zavitz. “One insurance company’s claims form is over 20 pages long, and I don’t even understand some of it.”

There are few one-off solutions to the challenges of increased market penetration in living benefits. Sources say a range of integrated strategies will be needed to tap into the growing demographic client base for these products (see sidebar: Not the Same Old Sales Pitch).

In fact, the products themselves are coming under increased scrutiny by underwriters and reinsurers. In June 2007, RBC Insurance introduced the first policy that bundles critical illness and long-term care features through its enhanced Critical Illness Recovery Plan. It gives clients the opportunity to convert from CI coverage to a LTC plan between ages 55 and 65 without undergoing a new medical underwriting process. RBC has not released any figures related to pickup of the conversion option, which costs more than traditional CI insurance.

“I’m all in favour of conversion products,” says Collins. “The insurance carriers stand to lose this premium unless a conversion option is available. A changing need could be met with the conversion privilege. Imagine uncovering a financial need for a client and solving the problem without increasing the out-of-pocket premium for the client. This would be a triple win for the advisor, client and the carrier.”

Collins adds he would like to see more creativity in product design for LTC products as well. “LTC needs to become more flexible in its offering and clients should be able to pick and choose the options they want. The ‘smorgasbord’ approach will help increase sales. With this approach, however, prices are bound to increase.”

Others are unsure about the added cost of this flexibility. As it stands, LTC offers little in the way of guaranteed premiums, which can make it a hard sell to consumers. The memory of reinsurer price increases for CI in 2003 and the resulting effects on premium are still fresh in the minds of many advisors and may explain why sales have slumped. The opposite tack of stripping down coverages and focusing on affordability is one path that some are pushing hard.

“What we really need to do is take away the confusion for the consumer,” says Long. “Convertible products, for example, have not caught on because they come with so many caveats. It’s a case of ‘we cover this, but we don’t cover that.’ There is a trend of more simplified policies in CI, offering coverage for as few as five or 10 illnesses. In 12 years, how many illnesses have we seen claims on in CI?”

According to the 2006 version of Munich Re’s annual claims survey, the vast majority of claims for CI come from cancer (70 per cent), heart attack (15 per cent), stroke (five per cent), coronary artery bypass surgery (four per cent), multiple sclerosis (two per cent) and other (four per cent). These percentages have held fairly steady since the introduction of CI in Canada in the 1990s.

Franco says if insurers can agree on model wordings for major illness definitions, it would be a big step forward in the CI marketplace. The Canadian Institute of Actuaries is finalizing “benchmark definitions,” which still have to be accepted by reinsurers and insurers. Franco expects some “landmark decisions” from reinsurers at this year’s World Critical Illness Conference in Toronto in late April. “Lack of standardized definitions has been a sore point for a lot of people,” he notes.

Better training for advisors on underwriting living benefits is a must, according to Long.

“There is an immense need for educational seminars to teach people how to underwrite properly,” he says. “Agents have to understand what insurers are doing with these products and need to know a whole bunch more medical stuff that they didn’t know before. Instead, what they often get is product promotions.”

Other resources could also help advisors, particularly in the long-term care market. Henderson’s company recently launched a website (www.ltcplanningcentral.com) geared to advisors and consumers, which offers a resource CD, guidebook and long-term care conversation pamphlet. “The key to this is that we are not just creating stuff for advisors, but also for clients,” she notes. “We want clients to become educated, so that when an advisor talks to an educated client, it is a lot easier. They can meet in the middle.”

Armed with these resources, it will still be up to advisors to actively market and sell living benefits products.

“Advisors have never waited for someone else to take the first step,” Franco says. “My suggestion for advisors around the country is that they need to make it easier to sell and easier to buy for the widest audience. We can’t keep doing the same things and expecting great results.”

“The simplest thing that any advisor can do in terms of living benefits is constantly review it with their clients, says Zavitz. “If you have your review sheet and you make it as important as their investment choices, I guarantee anybody will increase the amount of production in the living benefits field.”

“The carriers and reinsurers have spent an enormous amount of money and time on developing living benefits in Canada and they are not about to give up,” concludes Collins. “Any advisor who works to develop this market will reap the benefits.”

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Not The Same Old Sales Pitch

A common approach to selling living benefits is to cite statistics, such as general incidence of cancer or the cost of nursing homes, as a wake-up call to consumers. But some say that tactic is not only ineffective, it may also be counterproductive.

“You can throw a bunch of statistics at people,” says Karen Henderson, a long-term care planning expert. “We all know them; somehow, it doesn’t change things.”

“It’s paralysis by analysis,” says Sean Long, a living benefits specialist. “People don’t care what the Canadian norm or statistical averages are. They care about consequences to them. The fear mongering does not work.”

So what does work? Long suggests thinking about characteristics the rapidly aging boomers, as one example of the population, tend to have in common — independence, decision making, reluctance to accept aging, lifestyle.

“Now think of long-term care insurance, but instead call it ‘lifestyle’ insurance,” he observes. “At 65, your clients have a reasonable expectation of a nice lifestyle. You want them to enjoy their mutual funds or seg funds. Their health is the one thing that can affect this picture. So, you want them to use 50 per cent of their old-age security, \$250 per month, to purchase lifestyle insurance. This allows them \$3,000 per month for nursing care at home, health services, etc. They are protecting their lifestyle. It is a different spin on it and it very much involves the money — not fear — angle.”

The same approach can be used for CI insurance. “When I go to a group of blue-collar workers, such as contractors or plumbers, I call it ‘paycheque’ insurance,” Long says. “I ask: ‘How many paycheques could you miss before the finances are hit hard?’ Obviously, people say one or two. Then, I ask: ‘What if you could buy paycheque insurance to protect your finances and your family in the event of a critical illness?’ This gets a much better response.”

“When you buy a product like CI or LTC insurance, it’s not just about the person surviving, it is an entire family issue,” notes Henderson. “It is really good to have stories and narratives. For example, ‘This is what happened to this family; this is what they experienced.’ People will identify with those stories. The good advisors come armed with solutions, not problems.”