

Tough Pitch

Critical illness sales in decline

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For 10 years critical illness insurance has promised Canadians money if they're stricken with a life-threatening medical problem, such as cancer. At first sales were brisk, but in the last five years the CI space has basically

**50,000 CANADIANS
SUFFER A STROKE
EVERY YEAR.**

come to a standstill.

Starting in 2005, sales have continually dropped with the industry seeing a -5% change in sales of new individual CI in the first quarter of this year. The falling numbers have sparked debate across the insurance and advisory community as to why CI can't sell.

Janet Freedman, a finan-

cial planner with Toronto-based Finance Matters, says a big part of the problem is cost. For a 55-year-old female non-smoker, the cost of level coverage to 75 would be \$2,005 a year for \$100,000 worth of coverage without return-of-premium (ROP) – an option which allows clients to get back all the cash they've put in after the policy expires.

With the ROP option, that level coverage to 75 would cost \$4,394. That may be hard for some clients to stomach, especially after buying life insurance and disability insurance policies.

“There's a finite amount of insurance dollars,” says Freedman. “Where is the average family going to come up with another \$2,000 or \$3,000 for a decent CI policy?”

Mark Halpern, a CFP and founder of illnessPROTECTION.com, says return of premium can increase monthly payments by about 40%. He explains that ROP is the hook he uses to get clients in the door. Once they're

Continued on page 20

Tough Pitch

Continued from page 1

interested, though, he rarely sells them that type of policy.

However, the ROP option is popular among high-net-worth clients who have money to spend. Still, yearly costs are high, especially because many of them are taking out million-dollar or more policies. Halpern has one client who pays \$90,000 a year for a \$2 million 15-year ROP policy.

“He gets all his money back [if he doesn’t make a claim],” says Halpern. “For wealthier people, they have a whole bunch of assets with some fixed income earning 2% after tax. I just say why not shift money into this hedge? If they get sick they can get \$1 million tax-free after 30 days or stay healthy and get all their money back.”

IN 2002, THERE WERE AN ESTIMATED 136,900 NEW CASES OF CANCER IN CANADA.

While CI seems to make sense for cash-rich Canucks, it’s not the wealthy that are making up the bulk of buyers. The average policy is for \$80,549, signalling it’s the average Canadian who’s purchasing the product.

“It’s not cheap,” says Corry Collins, a CFP with Halifax-based

Living Benefits Atlantic. “But it’s expensive not to have it, and the product is so flexible.”

Until recently, another problem preventing massive sales of CI has been the definitions around what pays out. Freedman says a lot of her elderly clients have had TIA – a mini-stroke – which isn’t covered, but is debilitating.

“When we first saw these policies it covered heart attack, stroke and cancer,” she says. “But there has to be heart damage under heart attack, essentially brain damage for a stroke and cancer has to be stage three.”

She adds the coverage doesn’t pay out immediately – it takes about 30 days – so “don’t rely on it to cover you for everything,” she says.

Freedman herself was paralyzed for two months a few years ago, but she says no insurance company would have paid her. “If I had been someone who ended up in a wheelchair and completely paralyzed it would have paid out.”

Halpern admits that non-critical conditions either aren’t covered or will have a limited payout. First-stage breast cancer, prostate cancer and angioplasty will sometimes pay \$50,000 depending on the policy. But otherwise, he says, “the definitions are quite clear. If people fill out their application properly with a professional advisor, there’s no reason

67% OF CURRENT CANCER TREATMENT COSTS ARE UNFUNDED.

they won’t get paid.”

At the recent World CI Conference in Toronto, Munich Re, the country’s only CI reinsurer, tightened up the definitions so there would be no discrepancy on what will pay out and what won’t.

“It’s really good that they’ve done this,” says Halpern. “For those people sitting on the sidelines, consumers and advisors, hopefully it will be [easier] to sell.”

Probably the biggest issue facing declining CI sales, however, is that advisors have yet to fully embrace the insurance product. Collins says advisors just aren’t talking about it. “If you don’t talk about it you’re not going to sell it,” he says. “We sell it because we bring it up.”

“Why hasn’t it sold?” asks Halpern. “The average age of advisors in Canada is 57. When you’re that age you’ve been doing things the same old comfortable way. [Now the industry wants you to] sell a product you know nothing about? Why bother? It’s apathy. But a lot of younger [advisors and agents] will be selling this.”

He points out that often the client doesn’t like talking about mortality, so they avoid the subject of CI altogether.

“People who know about it

don’t want to deal with it,” he explains. “Most people like to put their head in the sand.”

Many clients also think that any financial setbacks due to medical conditions will be covered by provincial health plans or a work plan. “I’d call that the ignorance factor,” he says.

The advisors who sell CI are optimistic that when the masses know about the coverage, it’ll really fly off the shelves. But both Halpern and Collins say that the more mature the Canadian CI market becomes, the more expensive the product will become.

Halpern says that because there’s only one reinsurer, once more claims are made and they measure things from a profit/loss perspective, the more difficult it will be to get CI. “Rates will only go up,” he says. “The definition of disabilities is only going to become more stringent.”

“If you look at the rest of the world, where they have more experience, the overall comment you hear about Canadian policies is that they’re on sale,” adds Collins. “The fact that you can have a policy to age 100, or that there’s ROP, that won’t be able to last.”

FACTS:

- > One in four Canadians will experience some form of heart disease or stroke and 60% of

stroke victims will be left with a disability.

- > 75% of stroke victims survive the initial event.
- > Up to 80% of stroke survivors return to their homes, still requiring assistance for daily living.
- > 95% of hospitalized heart attack victims survive the first attack.
- > Since 1970 the incidence of cancer has increased at the rate of 1% annually.
- > One in nine Canadian women will develop breast cancer.
- > More than half of all people living with cancer will survive at least 5 years after diagnosis.
- > 67% of current cancer treatment costs are unfunded.

MYTH:

Q I have disability coverage. Isn’t that good enough?

A Disability coverage will provide an income supplement during your disability, subject to a waiting period. The supplement is usually calculated as a percentage of your regular income only and will continue for a limited time. It does not compare to the lump-sum payout available with critical illness insurance, nor does it allow the freedom of choice that comes with such a large non-taxable benefit.

Note, coverage cannot be purchased for a pre-existing condition or illness.