

The Clear and Present Need for

Critical Illness Insurance Today

(A Massive Sales Opportunity on the Horizon)



Standard Life and Accident Insurance Company

For Agent Use Only.

TABLE OF CONTENTS

Section A: Critical Illness Insurance: The Concept.....	4
1. What is Critical Illness Insurance?	5
2. The Evolution of Critical Illness Insurance.....	5
3. Critical Illness Insurance as a Standalone or Complement to Other Types of Insurance Plans.....	6
4. Critical Illness Insurance as Asset Protection	7
5. Key Person Protection for Businesses.....	7
Section B: Imminent Sales Opportunity	9
1. The Clear and Present Need for Critical Illness Insurance	10
2. Increased Survival Rates	11
3. The High Cost of Treating a Critical Illness	11
4. Most People are Not Prepared for the Financial Impact of a Critical Illness	12
Section C: Sales in the United States	14
1. History.....	15
2. Three Main Hindrances to Sales.....	15
3. Education About the Product Creates Interest	16
4. Good News About the Growth of Critical Illness Sales	17
5. Buyer and Claimant Study	20
Section D: International Sales	21
1. History	22
2. Critical Illness Sales Around the Globe	22
Section E: Selling Critical Illness Insurance	25
1. Target Markets	26
2. Considerations for Sales Approaches	27
3. Overcoming Objections.....	28
4. How much Critical Illness Coverage Should be Purchased?	29

TABLE OF CONTENTS CONTINUED

Section F: Testimonies30

1. Risk Management: Critical Illness Insurance31

2. Bridge Over Troubled Waters32

Section G: Critical Illness Insurance: The Beginning -
The Story of Dr. Marius J. Barnard33

A

Critical Illness Insurance: The Concept

CRITICAL ILLNESS INSURANCE: THE CONCEPT

1. What is Critical Illness Insurance?

Critical Illness insurance pays a fixed, lump-sum cash benefit to an insured person upon diagnosis of a covered illness such as cancer, heart attack or stroke.

Because most people are unprepared for the onslaught of expenses, both medical and non-medical, incurred by a traumatic illness, the purpose of Critical Illness insurance is to provide a lump-sum of money to the insured person at a time when finances may be strained. The benefit may be used at the discretion of the beneficiary for anything from deductibles and copayments to mortgage and rent payments, in-home care, replacing lost wages from inability to work or even a vacation to recuperate following the illness. In essence, Critical Illness insurance allows the patient to concentrate on recovery rather than on how to pay unexpected bills.

Half the foreclosures in America are due to debt incurred from medical causes.¹

See section A4

2. The Evolution of Critical Illness Insurance

When Critical Illness insurance was invented in 1983 by Dr. Marius J. Barnard in South Africa, the plans only covered four major illnesses: cancer, heart attack, stroke and coronary bypass.

At first, actuaries and underwriters alike were somewhat perplexed by the product as it did not fit the universal criteria for most life or health products. This product would pay out at the diagnosis of an illness and had more features in common with life insurance than with health insurance. The difference is Critical Illness insurance is for the living and life insurance is for the beneficiary.

It seems that these early product issues required a more creative assessment and solution than was first understood by the more analytically inclined actuaries and underwriters. The issues were finally resolved when it was reasoned that this hybrid product required a look 'outside of the box' of both life and health products.

In the beginning, most companies wrote the product as an accelerated benefit on credit life insurance policies for mortgage loans, but today, the product is also written as supplemental health for individuals, groups and voluntary worksites. Currently, there are various plans that cover a host of diseases, in addition to the original four, including paralysis, organ transplant, blindness (loss of sight), heart valve replacement and multiple sclerosis.

Some health based plans offer recurrence and multiple illness benefits. These plans pay an additional benefit for each illness outlined in the plan or will pay a percentage of the original benefit if the illness returns.

Most people that declared bankruptcy due to medical expenses had health insurance.²

3. Critical Illness Insurance as a Standalone or Complement to Other Types of Insurance Plans

While Critical Illness insurance is a viable standalone product, it is also a great complement to other medical plans.

For example, **major medical plans** usually pay providers, and usually only cover a percentage of the actual cost. Critical Illness insurance pays the insured and the payment may be used to pay the deductibles, copayments and uncovered portions of major medical plans.

Disability insurance requires a certain period of being disabled before benefits can be paid and only pays a percentage of the wages earned while working. As a complement, Critical Illness insurance pays immediately upon diagnosis and can be used to fill the gap until the disability plan disbursements begin and can help cover lost wages.

Long-term care insurance can also have waiting periods before benefit payments begin and typically pay only when the ability to perform certain basic activities of daily living such as dressing, bathing, eating, toileting, continence, transferring (getting in and out of a bed or chair), and walking are impaired and require assistance. If the necessity for long-term care is due to a covered illness, the Critical Illness insurance will pay upon diagnosis and the money can be used as a bridge to cover expenses until the long-term care benefits begin.

71% of employees said voluntary benefits made them feel more loyal at work.³

Alternatives for Employers and Business Owners

As more employers are reassessing their ability to finance comprehensive medical plans for their employees, the solution is often inevitably to pass along more of the costs in the form of increased deductibles and copayments. Offering Critical Illness insurance may be a way to supply the much needed medical coverage, while at the same time reducing company expenses. When sold as voluntary benefit plans in the worksite, the premiums are paid by the employee and can be setup as a payroll deduction so there no are complicated forms or monthly premium payments for the employee to remember.

Also, as a plus for employers, studies show that satisfaction with voluntary benefits is often linked with job satisfaction and loyalty to the company.³ Studies also indicate that most employees would be willing to pay 100% of the premium once the benefits of Critical Illness insurance are explained to them.⁴

**30% reported
losing two or more
weeks of work
because of injury
or illness in the
years before
foreclosure.¹**

4. Critical Illness Insurance as Asset Protection

With half the foreclosures in America due to debt incurred from medical causes and approximately 1.5 million homeowners currently in danger of losing their homes due to illness related expenses,¹ a product like Critical Illness insurance that pays a lump-sum of money when a person becomes sick can be invaluable.

A 2007 Harvard study on personal bankruptcy concluded that an average shortfall of just under \$18,000 in illness related expenses forced most of the families surveyed into bankruptcy.² Most of these families had some form of health insurance at the onset of the illness. Since Critical Illness benefits can range from \$5,000 to \$1,000,000; one single payout could have made all the difference between financial survival and homelessness. In this light, Critical Illness insurance can be viewed as a safeguard for “the American dream.”

For the self-employed and small business owners, the stakes are even higher. A shortfall resulting in a personal bankruptcy, might also adversely affect their business.

In some countries, in addition to agents and brokers, Critical Illness insurance is being sold by banks as a facet of mortgage protection. In Canada, 46% of home foreclosures are due to major illnesses.⁵ Therefore, Critical Illness insurance is now more widely sold than life insurance and this is primarily due to tying the product to mortgage protection.⁵

Although mortgage protection accounts for a large portion of Critical Illness insurance sales in Australia, its main purpose is that of income protection. It is sold as a complement to disability insurance.⁶

5. Key Person Protection for Businesses

Critical Illness insurance can also be used as key person protection for businesses. “Key personnel” are usually business co-owners or highly compensated employees whose extended absence or inability to return to work could greatly damage the financial stability of the company.

In this case, the key person would be the named insured, but the employer would be the owner and beneficiary of the policy.

In the event that the key person suffers a Critical Illness, the policy would provide a lump sum payment that could be used as contingency funds to cope with reduced profitability. The money could be used to buy-out the co-owner, pay an agency to find a replacement or in any way needed by the policy owner.

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B

Imminent Sales Opportunity

1. The Clear and Present Need for Critical Illness Insurance

Critical Illness insurance is possibly the least known but arguably the greatest asset protection tool on the market today. For producers, it's possibly *"the best sales opportunity our generation has in this business"* according to Kenneth Smith, past president of the National Association of Critical Illness Insurers.¹

Supporting Smith's assumption about the forthcoming growth in sales opportunities is the increase in the probability of developing a traumatic illness coupled with the rising cost of treatment, and the fact that advances in medical science and technology allow more and more people to survive a critical illness.

In addition to the advances in the medical and technological fields, programs have been initiated to increase awareness of what individuals can do to improve and maintain good health. But, despite the overt push on a national level to improve public awareness of a healthy lifestyle by reducing stress, eating good quality food, getting more exercise and more sleep, many Americans still lead a fast-paced lifestyle that includes high levels of stress, sleep deprivation and fast food. All of which are factors that can lead to a decline in levels of health and an increased possibility of developing a critical illness.

Statistics show:

- A 25 year old male, non-smoker has a **24% chance of developing a critical illness** (cancer, heart attack or stroke) by his 65th birthday, but the chances **increase to 49% for a male smoker** of the same age.²
- The American Cancer Society estimates that **1,596,670 new cancer cases** will be diagnosed in 2011.³
- By 2030, it is estimated that **116 million people** in the United States (40.5%) will have some form of cardiovascular disease.⁴
- **660,000 new cases of heart failure** are diagnosed each year according to the American Heart Association.⁵
- The estimated number of patients age 65 and older who were hospitalized for heart failure increased from 348,866 in 1980 to 807,082 in 2006 – a **131% increase**.⁵

2. Increased Survival Rates

While the numbers show that chances for developing a serious health condition have increased, the good news is that the survival rates have also dramatically increased.

Some statistics for survival show that:

- **86% of hospitalized heart attack patients survive** and the percentage is higher for those with their first heart attack.⁶
- **80% of stroke patients survive** the initial event.⁶
- **10% of stroke victims recover almost completely**, and 25% recover with only minor impairments.³
- The **survival rate for kidney failure** is **60% to 90%**.⁷
- The **survival rate for a major organ transplant**, including the heart, lungs, liver, and kidneys, ranges from **50% to 90%**, depending upon the organ transplanted.⁸

3. The High Cost of Treating a Critical Illness

Along with surviving a traumatic illness comes the business of paying for the increased cost of living which is largely due to medical expenses and lost wages from the inability to work. Many Americans today live from paycheck-to-paycheck, and when it comes to being prepared for an unexpected medical crisis, the age old adage of 'putting something away for a rainy day' would seem either a lost concept or a financial impossibility. Therefore, an unexpected situation can have a dire impact on an already precarious household budget.

Even with major medical insurance in place, treatment is expensive and costs are on the rise. For the person with an 80/20 health plan, the financial responsibility of the paying the 20% can still prove challenging when expenses run into the thousands of dollars.

National average medical costs reveal:

- The **physician fee** for a routine office visit ranges from **\$61.00 to \$156.00**.⁹
- The **cost for a CT head scan** ranges from **\$82.00 to \$1,430.00**.⁹
- The **average cost of hospital stay** is **\$3,612.00** per day.⁹
- The **average length of stay in a hospital** is **4.8** days.¹⁰

4. Most People are Not Prepared for the Financial Impact of a Critical Illness

34% say expenses resulting from an accident or illness would leave them concerned about meeting their monthly bills.¹²

In fact, a study on the financial impact of a critical illness found that even with major medical coverage in place, many families coping with a critical illness can experience an average of \$12,000 in lost wages and about \$3,000 in out-of-pocket medical expenses during the first year alone. The long-term financial impact of a critical illness can linger far beyond the physical recovery period. Even as many as five years after diagnosis, 60% of people experiencing the illness were still incurring out-of-pocket expenses.¹¹

The same study concluded that most households incurred a debt-load of \$35,500, including \$4,976 on uncovered medical expenses, and \$1,588 in non-medical expenses.¹¹

The Top 3 Out-of-Pocket ¹¹ Medical Expenses	The Top 3 Out-of-Pocket ¹¹ Non-medical Expenses
1. Copayments	1. Travel
2. Prescriptions	2. Home/Auto Modifications
3. Out-of-Network Doctor Visits	3. Home Maintenance

The study, which was conducted with full-time workforce participants, also found that approximately 46% have less than \$5,000 in savings in the event of a medical emergency and 28% have less than \$500.¹¹

The survey divided respondents into two categories: those who reported that a critical illness had little to no financial impact on their lives, and those who reported that a critical illness had a major financial impact on their lives.

Both groups were asked to rate financial adjustments made as a result of the critical illness. Adjustments included borrowing money from friends or relatives, an inability to pay bills, higher credit card bills, reduced capacity to save, withdrawals to savings account and reduced discretionary spending. It is interesting to note that the respondents with Critical Illness insurance say the illness had *little to no impact* on their financial condition.¹¹ The figure below shows a side-by-side comparison.

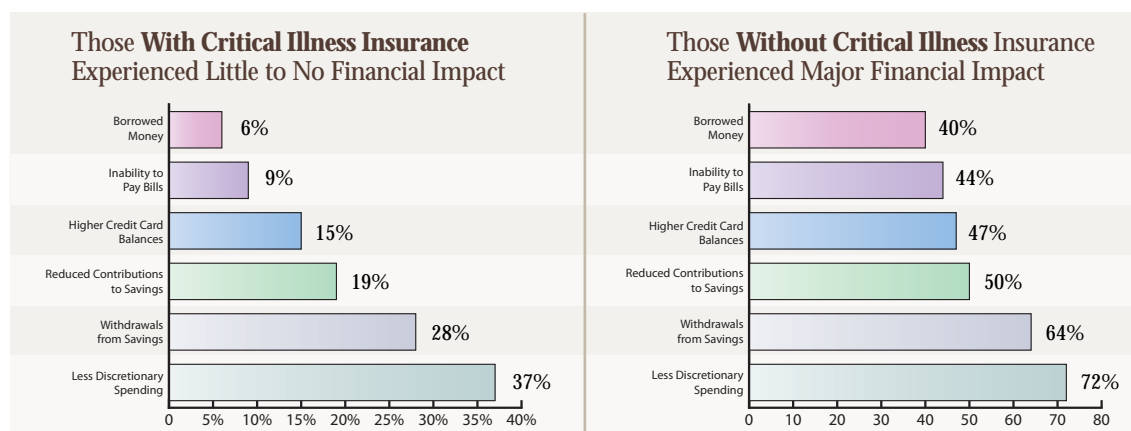


Chart reproduced from MetLife Critical Illness Study.¹¹

A separate study concerning fiscal preparedness for a critical illness¹² revealed:

- **34%** of those surveyed say having enough money to meet their current expenses is their biggest financial challenge.¹²
- **36%** do not believe their families are financially prepared for an unexpected health emergency.¹²
- **31%** have no confidence in their financial ability to cope with a traumatic illness, injury or death.¹²
- **51%** say they are completely unprepared to pay out-of-pocket expenses related to an unexpected illness or accident.¹²

Moreover, statistics show that illness and medical bills account for a large percentage of bankruptcies in America today,¹³ half of the current foreclosures are due to medical causes, and 1.5 million Americans are in danger of losing their homes - also due to medical expenses.¹⁴

The numbers are both staggering and grim, therefore it is easy to see how a product that pays a lump-sum of cash upon diagnosis can be one of the most prudent tools for protecting assets and preserving the financial stability of the household.

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C

Sales in the United States

SALES IN THE UNITED STATES

1. History

Jackson National Life was the first company to offer Critical Illness insurance in the United States. The product was introduced in 1989 and was sold as an accelerated life benefit in the brokerage market. The product only covered five illnesses but sales were successful for the first three months and then waned.¹

In 1996, American Physician's Life also began to offer the product as an accelerated life benefit but saw limited sales since they were only licensed in eight states. Later Bankers Life and Casualty developed the first standalone policy but sales were still largely unsuccessful because many saw Critical Illness as just another type of cancer coverage.^{1,3}

Today, there are basically three main reasons for the sluggish rate of sales: a) agents' lack of understanding of the need for the product and how it works; b) agents who restrict themselves to selling only what they are comfortable and familiar with, and c) a lack of awareness of the existence of the product by the general public. All faults which Jesse Slome, Executive Director for the American Association for Critical Illness Insurance, believes are the responsibility of the insurance industry in America which has not properly marketed the product to the public nor supplied adequate sales training for agents.²

2. Three Main Hindrances to Sales

A. Lack of Agent Training

A *2008 Critical Illness Insurance Market Survey*⁴ asked survey participants to rank what they believed were the greatest obstacles to increased sales. Survey results support the opinions of Jesse Slome. In both the traditional individual and the worksite markets, lack of agent training ranked highest as the greatest hindrance.

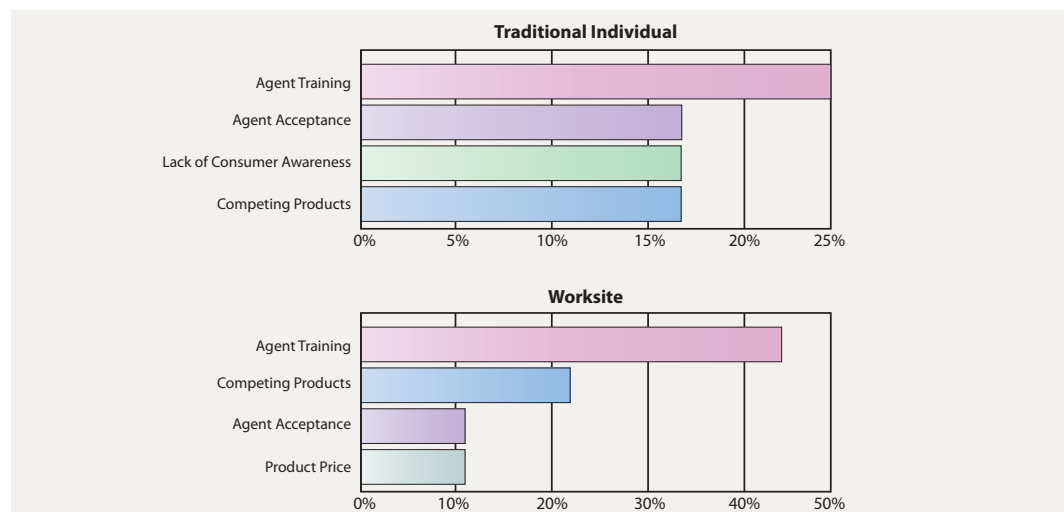


Figure reproduced from 2008 Critical Illness Insurance Market Survey.⁴

**75% of
employees had
never heard of
critical illness
insurance.⁷**

In the individual market, lack of consumer awareness of the product ranked third with agent acceptance being second.

The true group survey participants cited agent acceptance, lack of consumer awareness and competitive products as the biggest obstacles.⁴

B. “Niche” Selling

For health insurance agents and brokers whose commissions have decreased over the last few years, Critical Illness plans can offer new sales opportunities. Agent Sales Journal's *2011 Health Market Study* stated that agents are earning less income, facing new challenges in the industry, and for the first time since the ASJ study began in 2007 agents no longer feel optimistic about the future.⁵ Producers who have “found their niche” with a particular product now find sales declining. Because they have specialized in one or two areas, their “niche” has become a rut. When facing a decline in one area, especially when the decline impacts income, it's important to seek out new opportunities. Adding supplemental products like Critical Illness insurance to a product portfolio can offset decreasing sales elsewhere.

According to Kenneth Smith, past president of the National Association of Critical Illness Insurers, agents in Canada were not initially receptive of Critical Illness insurance as a worthwhile product.⁶ They approached it only as a way to distinguish themselves from their competition. However, agents ultimately found that selling Critical Illness plans helped to increase their long-term care, disability and life business.⁶ They found that it provided an excellent platform to introduce it as a complement to other products the client might not have initially been interested in.

C. The Consumer is Still Unaware of the Existence of Critical Illness Insurance

A recent study,⁷ conducted with full-time, workforce participants, revealed that three-quarters of the survey participants had never before heard of Critical Illness insurance. The study also found that many who were only somewhat aware of the product, confused it with other types of coverage like disability insurance, or accidental death and dismemberment. In fact, some who initially believed they owned Critical Illness policies found that they were mistaken, once they learned more about the product. They actually owned a different type of plan.

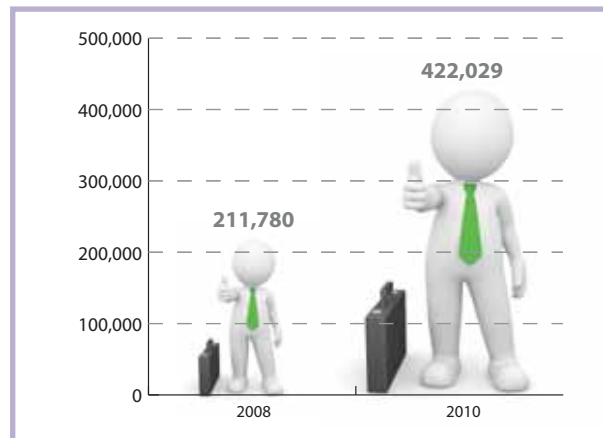
3. Education About the Product Creates Interest

The majority of survey participants who had never before heard of Critical Illness insurance, exhibited great interest in the product once the features and benefits were explained. Even in today's fluctuating economy when most consumers are budget sensitive, the study concluded that many participants were willing to pay 100% of the premium once they were educated about the how the product worked and found that premiums could be paid through payroll deduction.⁷

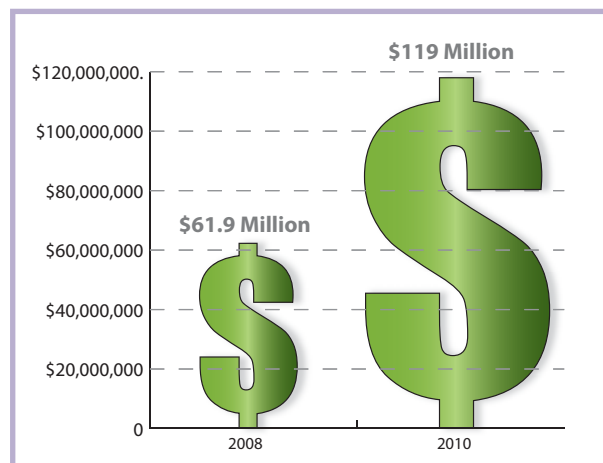
4. Good News About the Growth of Critical Illness Sales

There is good news on the horizon about the growth of Critical Illness sales in the U.S.

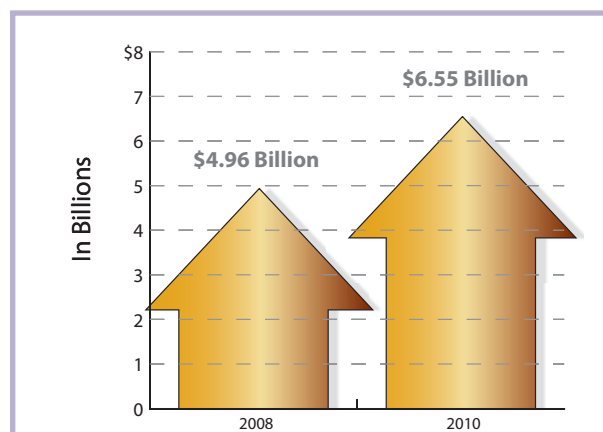
Sales data from the 2008 and 2010 Gen Re/NACII *Critical Illness Insurance Market Surveys*⁴ show promising growth for the product. Sales doubled from 2008 to 2010, and if sales trends in the U.S. follow the established trends of other nations, the product is now poised for an imminent leap in sales. In most countries, the initial introduction of the product met with slow sales, but as carriers, agents and the public become more educated about the product, sales began to increase exponentially.



New Business
Policy / Certificate
sales doubled⁴

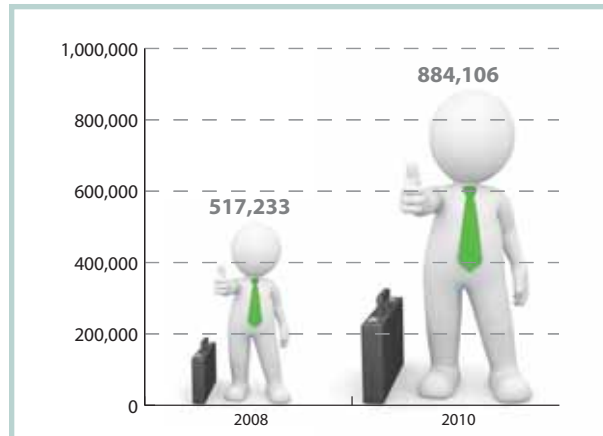


New Business
Premium up 92%⁴

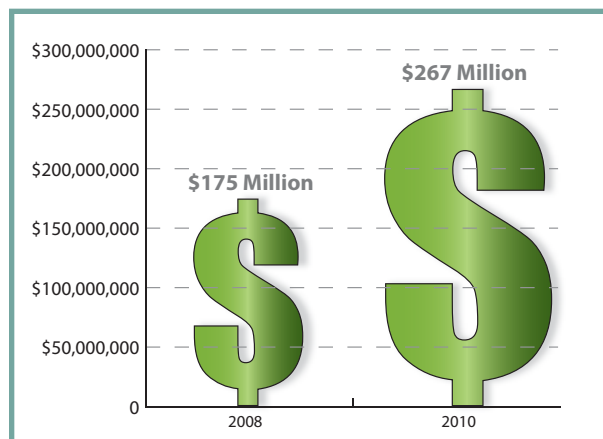


New Business
Insurance Benefit
Amounts increased
32%⁴

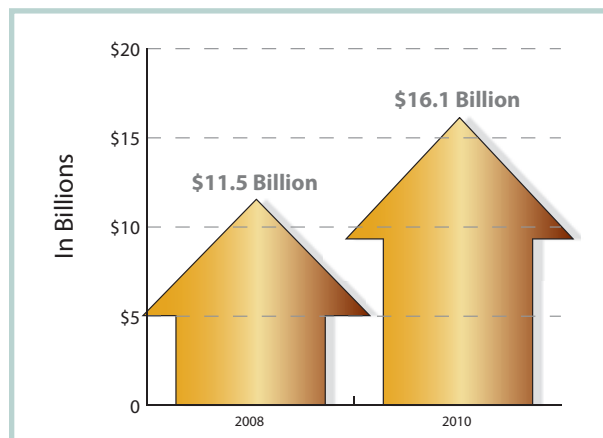
In-force business also saw an increase, which serves to reinforce the importance and practicality of the product.



**In-force Business
Policy / Certificate**
up 71%⁴

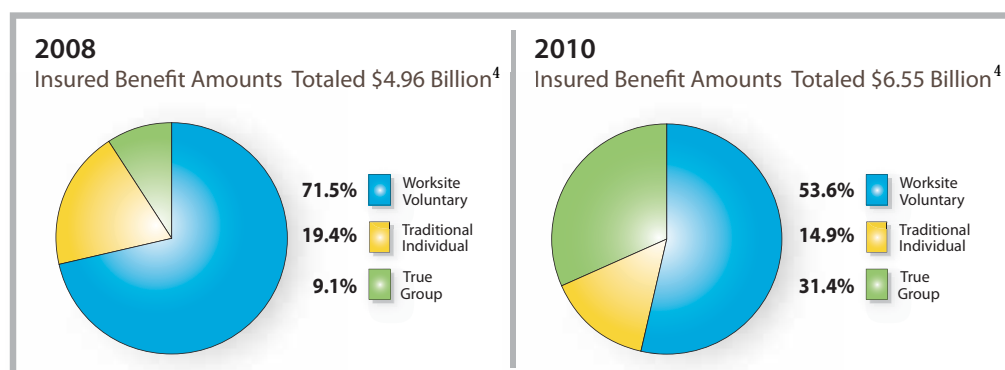
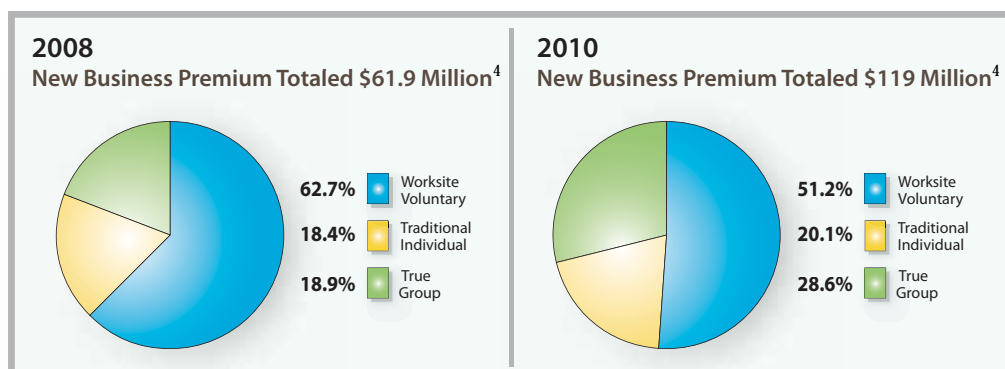
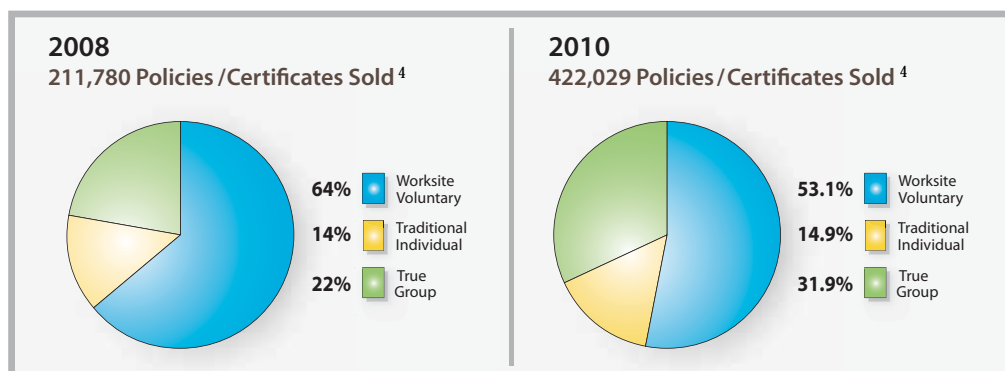


In-force Premium
up 53%⁴



**In-force
Insurance Benefit**
Amounts increased
40%⁴

The following charts show the breakdown between traditional individual, worksite/voluntary and true group sales for the years 2008 and 2010. While worksite/voluntary sales dominated the market in 2008, true group sales enjoyed substantial growth in 2010.



5. Buyer and Claimant Study

According to the 2011 Buyer and Claimant Study conducted by the American Association for Critical Illness Insurance (AACII) and Gen Re, cancer accounted for 61% of the critical illness claim payouts in 2010. Heart attack was the second leading cause for claims at 14% and stroke was third with 5% of claims.⁸

The study also revealed that men over the age of 55 were the average purchasers of Critical Illness insurance and they tend to buy higher amounts of coverage than women. New claims for men begin, on average, at age 55, but 71% of new claims by women begin after age 55. Approximately 4% of claims for both men and women started between the ages of 35 and 44.⁸

Based on these statistics, it is not improbable to draw the conclusion that a good target market for Critical Illness insurance would be those wishing to protect retirement savings and mature home owners. See Section E1.

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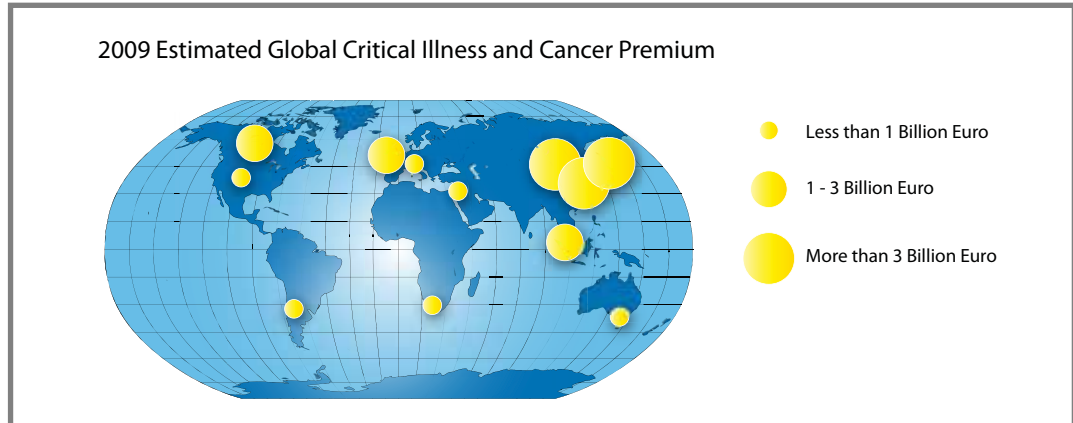
D

International Sales

INTERNATIONAL SALES

Currently, worldwide annual Critical Illness premium is estimated at over 20 billion Euros or \$27,299,990,035.00 in U.S. currency, including cancer products that are popular in Japan. Asia, in particular South Korea, China, Malaysia and Singapore, account for more than half the premium volume.¹

*Chart modified from
SCOR Global
Life Newsletter.¹*



1. History

Critical Illness insurance was first introduced in South Africa in 1983. Today, it is sold in 54 countries worldwide including Australia, Canada, China, Hong Kong, Israel, Japan, Malaysia, New Zealand, Singapore, South Africa, South Korea, Taiwan, UK, and the U.S.²

2. Critical Illness Sales Around the Globe

South Africa

When Critical Illness insurance was introduced in 1983, it covered only four conditions: heart attack, cancer, stroke and coronary bypass surgery. By 2001, according to the South African dread disease report, many companies covered up to eight core critical illness conditions and 21 extended conditions.

Today in South Africa, 70% of all life insurance companies sell Critical Illness insurance as a rider to life insurance. The market focus is divided by economic levels with captive life agents generally selling to lower income clients and brokers targeting higher income clients.³

Canada

Like many countries, the product received a slightly cool reception when it was introduced in Canada in 1993. However, once the public and agents alike became more familiar with the product and aware of its inherent value, sales increased dramatically

and were up 97% in the year 2000.³ The average issue age was 41, with a premium of C\$1,000 and an average face value of C\$100,000.³

Today, there are over 500,000 critical illness policies in Canada with premiums topping over C\$536 million.⁵

In Canada, Critical Illness is generally sold through agents and brokers, however, the worksite market is quickly growing. In the worksite, the coverage is offered through human resources which by-passes the agents.³

United Kingdom

The product was introduced to the UK in the mid-1980s but sales did not gain in popularity until the late 1980s. By the end of 1998 there were more than 2.25 million policies in force.³

Today Critical Illness insurance is more popular than life insurance and consistently outsells traditional disability insurance. More than 70 companies sell the product and its primary purpose is mortgage protection.²

Independent financial advisers account for about 30% of Critical Illness sales with the recipients being the self-employed, businesses and those desiring financial protection for savings intended for education.³

Australia

Critical Illness insurance was introduced to Australia in the late 1980s and was originally sold as an acceleration benefit on term life policies. This market has grown considerably and today almost all life insurance companies sell the product.

Like most countries, product sales lagged initially but gained momentum once the public realized the practicality of owning such protection. In 1994 in-force premium totaled A\$88,000,000 and 1997 saw a 217% growth as in-force premium topped A\$191,000,000.³

Critical Illness insurance has also helped to increase the sales of disability insurance (DI) 'down under'. Australian health insurance agents found that using Critical Illness as a gap-filler to cover the disability insurance waiting period has bolstered their DI sales, and now income protection is one of the main functions of Critical Illness coverage in Australia.

Japan

Japan is one of the few locations where Critical Illness sales were immediately successful from its introduction in 1993. Though covering only three conditions, heart attack, stroke and cancer, over 500,000 policies were sold within the first 10 months. By 1997, over 6,000,000 policies were sold.^{6,8}

East Asia

East Asia has proven to be one of the most successful markets for Critical Illness insurance since its introduction to the area in 1988.⁷

The “Dread Disease Experience Study 1996” conducted by the Life Insurance Association of the Republic of China examined Critical Illness sales in Taiwan. The research concluded that approximately 2.4 million policies were sold in one year and more than 2,108 claims were paid. The total premium in force was estimated at NT\$1.24 billion.⁷

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E

Selling Critical Illness Insurance

1. Target Markets

The target market for Critical Illness insurance is quite vast, as almost everyone has a potential use for the product. Anyone with assets or quality of lifestyle to protect is a potential client.

Home Owners

For example, new home owners and mature home owners both have the same basic need to protect their most valuable asset. Both could benefit from additional money to pay mortgages and household bills, etc. in the event of unexpected expenses due to a critical illness. Renters can benefit from Critical illness insurance for the same basic reason.

Singles, Couples and Families

Singles, couples and families all have the same fundamental need to protect their financial stability should a traumatic illness impair their ability to work and earn income.

Those Saving for Specific Life Events

Retirees and those saving for retirement or other specific life events, such as private or higher education for children or grandchildren, have need of protection for those funds. Critical Illness insurance could provide the flexibility needed to keep those vital savings intact for its intended purpose.

Business Owners and Employers

Business owners, small business owners, employers and the self-employed are potential clients in three possible areas: 1. key person protection, 2. employees, and 3. personal.

As stated in Section A5, key person protection can be of major importance to business owners, whether large or small. The loss of personnel whose absence threatens company revenue could not only endanger company finances, but has the potential to place personal finances in jeopardy as well.

Employers seeking ways to save money on health insurance for their workers because of increased costs due to impending health care reform measures, may find Critical Illness insurance a credible solution for benefits offerings. As another plus for employers, employees tend to rate loyalty and job satisfaction higher for companies that offer voluntary benefits like Critical Illness insurance.¹

2. Considerations For Sales Approaches

While each potential client has a unique set of needs, Critical Illness insurance – almost unlike any other product – addresses a basic need of most people, financial defense in the event of a traumatic illness. Therefore, every potential client has a trigger or need-set that can help promote an understanding of their individual need for the product.

This need-set can generally be established by using a two-pronged approach: statistical and effects on quality of life.

Statistics and Cost Factors Tell the Story, Effects on Quality of Life Brings it Home

Statistics. With the dramatic increase in the occurrence of critical illnesses in people of all ages, most people probably know of someone, either personally or through second-hand knowledge, that has experienced a critical illness. However, the possibility of personally experiencing such an illness may not be in their current realm of thinking.

Therefore, establishing the probability of such an occurrence is a fundamental step in the process. For example:

1. A 25 year old male non-smoker has a 24% chance of having a critical illness like cancer, heart attack or stroke before turning age 65,² or
2. Every 40 seconds someone in the U.S. has a stroke. Ten percent of stroke victims recover almost completely and 25% recover with minor impairments,² or
3. Over a lifetime, nearly 50% of men² and 1-in-3 women will be diagnosed with some form of cancer.³
4. Most working people have five times greater chance of developing a critical illness than dying before retirement.⁴

“What will happen to your [finances, family or the ones you love] if you develop a critical illness at some point in your life?” or, “Could you afford to buy out your business partner if he, or she, was diagnosed with a critical illness and could no longer be a functioning part of the business?”

Cost Factors. Establishing the cost effects of a traumatic illness is as important for those who may currently have some type of medical or health insurance as those who do not have any form of health insurance.

“I understand that you already have some health insurance. But if you [your spouse] experienced a heart attack and had to be hospitalized, the average cost of a hospital stay is \$3,612.00⁶ per day and the average length of stay for a heart attack is 4.4 days.⁷ The cost of that stay would total \$15,892.80. Even if your insurance plan pays 80%, could you afford your 20% which would be \$3,178.56? This does not include other medical costs such as physician fees, tests and medicine.”

Effects on the Quality of Life. “Most people require from two weeks to three months before returning to work following a heart attack.⁸ How would you pay your mortgage [rent] and your other bills?” “Could your spouse afford to take time off work to stay with you while you recuperate?” “Could you afford to take time off work to be with your loved one while they recuperate?”

**Michael Eisner
(former CEO of
Disney) was off
work for six weeks
following his
quadruple bypass
in 1999.
David Letterman
was also off work
for six weeks
following his
quadruple bypass
in 2000.⁹**

Another pertinent assessment could be to determine how the current lifestyle would need to be adapted following a critical illness if large medical bills or other expenses threatened retirement savings or funds intended for other purposes.

“If you have \$60,000 in [retirement savings, funds for private schooling or higher education for your children, grandchildren] and you had to spend half of that to pay medical bills and other living expense following a critical illness, how could you replace the funds?” “Would you be able to replace the funds?”

You may use a chart like the following to help clients visualize the impact of a traumatic event on their finances and how well they are currently prepared. Most people own insurance that protects their homes and automobiles, but many are not insured against the financial after effects of a devastating medical condition.

Event	Effect on the quality of your life? 1 (low impact) 10 (high impact)	Are you covered for this event?
1. Someone breaks into your [house, apartment].		
2. The doctor says you have lung cancer.		
3. You have a minor car accident that damages your car.		
3. You have a heart attack.		
4. A hurricane or flood damages your house or apartment.		
5. You have a stroke.		
6. (Business owners) Your ____ company goes bankrupt.		
7. You require open heart surgery.		

Chart modified from
The Marketing of
Critical Illness
Insurance.¹⁰

3. Overcoming Objections

The following are some common objections to purchasing critical illness insurance and possible considerations for the potential client.

1. “I’m interested, but I can’t afford it.” Often discussing income and getting a breakdown of the current household budget on paper is helpful in determining the accuracy of this statement as there are many types of Critical Illness plans available to fit different budgets.
2. “I have too much insurance already.” Again, listing out the actual types and amounts of insurance already owned is helpful in determining the accuracy of this statement. Many times, people are not completely aware of exactly what their current insurance does and does not cover.

3. "I don't need that, my equity is in my house." With today's housing market, selling a house could be a lengthy process and cash may be needed quickly. Also, moving and illness are two of the top stressors known to medical science. Are the clients really prepared to undertake two such stressful situations at the same time? With the added medical expenses, are they prepared to move to a less expensive home possibly in a less desirable neighborhood? If there are children involved, are they prepared to send their children to a different school, again, possibly in a less desirable neighborhood? Would the client have to move back in with parents or other relatives?

Whatever the objection, the main selling point, above all, is that with Critical Illness coverage, there is peace of mind in knowing that there is financial support in place during a recovery period from a major or life threatening illness. This allows the patient and their families to focus on recovery rather than on paying bills during an already stressful time.

4. How much Critical Illness Coverage Should be Purchased?

The amount of Critical Illness coverage needed will vary for each situation. The determining factor is how much money would be needed to survive until the patient has recovered. A good rule of thumb is for a person, or family, to purchase enough Critical Illness insurance to cover one year of expenses, and possibly 6 to 8 times the annual earnings if there is a sizeable mortgage and young dependents involved.¹¹

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A large teal square occupies the top half of the page. In the center of this square is a large, white, serif capital letter 'F'.

F

Testimonies

1. Risk Management: Critical Illness Insurance¹

Written by Peter J. Merrick, February 2005

*Edited version of
article printed
with permission of
the author,
Peter J. Merrick,
President of
Merrick Wealth
Management,
BA, FMA, CFP,
FCSI*

The year was 1998 it was a beautiful Sunday afternoon in the month of May. I then received the call that I will never forget. My father who was only 58 years old at the time had just been admitted to North York General, in Toronto. What brought him there was that afternoon he had a major brain seizure which we later found out was caused by a level four brain tumor.

My father had always been responsible with his financial planning, he was a Chartered Accountant by profession and he was very conservative with his financial affairs. What happened in the months that followed were: he had to sell his tax practice, live off of savings until he could start collecting from his disability insurance policy, put his affairs in order and go through numerous cancer treatments in both Canada and the United States, to try to prolong his life.

My father had purchased more than adequate life and disability insurance. If he had lived to age 65 he would have received over \$900,000 in after-tax disability benefits. His disability insurance provided a hefty monthly income, what his disability and life insurance policies did not provide was a lump sum that was desperately needed for the expensive cancer therapies he received in Virginia. A huge financial burden would have been lifted off my parents back if someone had introduced the concept of the critical illness insurance to my father and explained its importance as a part of risk management during the financial planning process, when he was well.

The personal story that I just related is not a unique one. It is a sad fact that many of us know or will know someone who has or will suffer from a critical illness. Despite medical advances, critical illness is still all too common. Being diagnosed with a critical illness doesn't only spell emotional and physical turmoil. It can also mean financial disaster for all those involved.

Is having Critical Illness insurance coverage worth the cost? Or is it better to self-insure yourself if you become critically ill?

Responsible Canadian adults have invested the time and money planning for their retirement. But what would happen to those wonderful plans if these individuals had heart attacks or strokes or were diagnosed with cancer today or a few years from now? How would their retirement plans be affected? Let's look at an example...

Imagine a couple named John and Joan Williams, both are 40 years of age. John is a dentist and Joan is an accountant. Both have made maximum contributions to their RRSPs for the last fifteen years and neither own critical illness insurance. One day Joan finds out from her doctor that she has inflammatory breast cancer, the news is

devastating. The good news is Joan has been accepted into a gene therapy trial program at Scripps Mercy Hospital, in San Diego that has had promising results for women with her same condition. However, the treatment will cost \$100,000 US, and it is not covered by the Williams' provincial medical insurance nor their private medical and dental plans. The only place where they can come up with this money fast is from their RRSPs.

Between the 20% US/Canadian exchange rate and a top marginal tax rate of 46% the Williams will have to collectively withdraw \$223,000 out of their RRSPs to pay for Joan's gene therapy. Joan responds terrifically to the treatment and is in full remissions from her cancer, after one year. Now lets fast forward 25 years, Joan and John are now 65 and are about to retire. They never regret withdrawing money out of their RRSPs for Joan's treatment but wished that 25 years earlier they had owned a critical illness policy on both their lives. For a monthly premium of approximately \$60 Joan would have received a non-taxable lump sum benefit of \$125,000 from owning a critical illness insurance policy. The opportunity cost that the Williams lost by taking \$223,000 out of their RRSPs twenty-five years earlier at a compound growth rate of 7% per year would have added \$1,210,317 to their retirement nest egg. I honestly believe that any one who benefits from owning a critical illness policy would never complain about its premiums or say that they own too much insurance coverage.

2. Bridge Over Troubled Waters²

Proponents say critical illness insurance fills a need not [filled] by other types of employer-sponsored insurance benefits.

The life of Jimmy Zee, corporate director for Edison, N.J.-based Joulé Industrial Contractors, was turned upside down in 1997 when his daughter Valari was diagnosed with an aggressive and rare form of leukemia that required an immediate bone marrow transplant.

"Every day, my wife and I had to make decisions affecting whether my daughter lived or died," he recalls.

As it turns out, Zee had made one of the most important decisions months earlier, when he began offering a cancer expense insurance policy to Joulé employees as a voluntary benefit in the company's flexible spending plan. That policy, which he purchased for his family, financed a three-month leave from work (and a six-month leave for his wife from her job) to tend to his daughter's needs during chemotherapy and isolation. The time that it afforded Zee and his wife may have helped save Valari's life.

The cancer-expense plan that Zee purchased is a forerunner of a new type of coverage—critical illness insurance (CII)—that only recently has been introduced in the United States. Nearly all CII plans cover cancer, heart attack, stroke, kidney failure and major organ transplant, although some policies cover far more.

*Reproduced from
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Rudy M. Yandrick*

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G

Critical Illness Insurance:
The Beginning -
The Story of Dr. Marius J. Barnard.

CRITICAL ILLNESS INSURANCE: "A MARRIAGE BETWEEN MEDICINE AND INSURANCE"

Dr. Marius J. Barnard

Critical Illness insurance was birthed from a place of compassion, and relentlessly championed by the passion of that same man who eventually had personal experience with the benefits of the product in his own life.

Dr. Marius Barnard:

Dr. Marius Barnard, the creator of Critical Illness insurance, was born in November 1927, one of four brothers to missionary parents in Beaufort West, South Africa. In the words of Dr. Barnard, his parents "sacrificed everything" to provide an education for their sons and despite being raised in relative poverty in a small sheep-farming community, both Marius and his older brother Christiaan went on to study medicine and become heart surgeons.

On December 3, 1967, Dr. Barnard assisted his brother Christiaan in the world's first human-to-human heart transplant. In regard to the many accolades and critical acclaim following the surgery, he responded *"We are doctors and we tried to save a human being's life, and I don't think there is anything special about it."*

Although diagnosed with prostate cancer in 1997 and given two years to live, and despite undergoing a surgery in early 2011, Dr. Barnard is now 84 years old and is still a major proponent of both Critical Illness and long-term care insurance.

A LIFE ALTERING CASE:

In the course of a thirty year medical practice, Dr. Barnard saw tremendous changes in the field of medicine. In particular, an increase in the lifespan of patients following a traumatic illness, but also the devastating financial hardship suffered by many patients due to the burden of debt caused by the additional medical and non-medical expenses coupled with lost wages.

One case in particular became the catalyst for the creation of critical illness insurance. The patient was a 34 year-old, single mother with two young children. Following a diagnosis of lung cancer and surgery to remove a lump, the patient went home five days later and was back to work in three weeks. Approximately two years later the same woman, again sick with cancer, came to see the doctor and it was determined that she was in the final stages. According to Dr. Barnard, the poor woman was basically a walking skeleton, pale, exhausted and gasping for breath; and yet she had just come from work. She had no choice but to work in order to provide for her children and herself. She died a few weeks later and although, in her case, there was life insurance, Dr. Barnard realized that it would have been much better for this woman to have had the money when she was diagnosed with the disease.

The Greatest Need:

It was cases like these, combined with far too many others like them, that prompted Marius Barnard to do something about this problem. According to Dr. Barnard, *“When I perform a coronary heart bypass, my patients survive between five and ten years. I had never realized what we were doing. We give them years, but we give them hell because of the increased costs of living. That is when it came to me. There were two sides to this - the medical side and the financial side. Patients need money from the initial diagnosis.”*²

And so, the idea for Critical Illness insurance was conceived.

The Beginning:

Efforts to find a product already designed to fit these types of needs were fruitless, so Dr. Barnard developed the product himself. Knowing nothing about the insurance industry made the task somewhat daunting but the doctor persisted and on August 6, 1983, Critical Illness insurance was launched in South Africa.

The initial roll-out of the product was with a large carrier, Standard Insurance, which belongs to the Standard Bank Group. Dr. Barnard recalled that there were about twelve people at the meeting, and as he talked about the product he became more and more enthusiastic. Largely due to his passion, the group also became enthusiastic about the product which resulted in subsequent speaking engagements to introduce and educate other companies about the product.

Australia was selected as the first choice to introduce the product to overseas markets. The meetings went well and met with great interest in the beginning. However, late-stage discussions were halted with the revelation that company shareholders did not want association with a South African company.

In 1986, Dr. Barnard introduced the product to the UK and met with limited success in the beginning. Although the UK is now one of the strongest markets for Critical Illness insurance, it took approximately five years for agents to come to a true understanding of how Critical Illness insurance works and the necessity of the product. Dr. Barnard pinpoints a speaking engagement at an LIA conference at the Barbican in 1991, as the point at which product gained wide-spread recognition and sales began to increase extensively.

The doctor's knowledgeable and passionate speech was given a standing ovation, and in his words “You see, I can bring something to the CI market that nobody in this industry can, not because I am clever or special. I bring credibility because I am a doctor.”²

Dr. Barnard on the Importance of Critical Illness Insurance:

In a video interview by Scottish Widows Investments, Dr. Barnard has this to say: *“You see it's really a marriage between medicine and insurance. I always say we, as doctors, are the ‘physical doctors’, the protection insurance is the ‘financial doctors’.”*¹

When asked, during an interview by the Critical Illness Insurance Resource Center, what advice he would give to people who are considering purchasing Critical Illness insurance but “putting it off”, Dr. Barnard has this to say:

“I would tell them, go and get your critical illness policy tomorrow! I have seen so many people come up to me and say “You know I have heard you talk”, and they say “I’ve seen you talk but unfortunately I did not listen and three months later, a year later, I developed it and it was useless because I get (now) no money”. The only thing, and you mentioned it, you need critical illness desperately, you cannot afford... it’s not that you can’t afford it, you cannot afford not to have it.” Just tell them to go and find out about it. Tell them to find out what it could do for you financially. Giving you security. Once you understand what it can do for you, you buy it. People don’t sell it... you buy it.”³

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