



HEART ATTACK AND TRAUMA

LOOKING BEYOND PRODUCT SCORING

INTRODUCTION

In this article we discuss the impact of changes to the sensitivity of tests used to diagnose heart attacks.

We also invite discussion about the issues raised in this article on the Linked In Group Australian Risk Advisers.

We have all heard stories of the client with a heart attack who has made it to casualty within 60-90 minute window, had the appropriate emergency treatment and has emerged with their heart not having suffered muscle death. When they received their Trauma payout for Heart Attack, they celebrated as they were healthy, could still work effectively and had a large insurance payment.

With the new Heart Attack definition there will be people who suffer from silent/minor heart attacks where they have no ongoing impact and little if any no financial loss and are still eligible for a Claim.

While we welcome the improvements in treatment of Heart Attack and no one wants to have a heart attack just so they can claim on a policy, *do you really think that the insurance outcome above is OK?*

We have been asked to raise these issues amongst advisers by a Life Company and a Reinsurer that are concerned about the affordability of trauma insurance and paying benefits where there is “no ongoing loss”.

SO WHAT IS THE PROBLEM?

Currently Heart Attacks make up approximately 15% of all Trauma claims. It is further claimed that if all Heart Attacks were diagnosed and based on the new definition were paid as claims, the proportion of Heart Attack claims will almost double (for males) to 29%. In addition, a significant proportion of angioplasties would also be classified as heart attacks.

PRINCIPLES OF INSURANCE

One of the basic principles is that you are not meant to “profit” from insurance. A more modern and sophisticated way to set out this principle is to state that insurance is meant to put you back into the (financial) position you were in prior to the occurrence of the insured event.

With General Insurance your car can be fixed or replaced or your house repaired. However, with Life Insurance you cannot put people back into the situation they were in prior to death, temporary or permanent disablement and the occurrence of a trauma event. What Life Insurance strives to do is to compensate you or your family/business associates for the loss that has occurred.



Pooling of Risk is another basic principle of insurance that needs to be revisited as part of this article. That is, Insurance is not a magic pudding or where the client is pitted against the life company (like a bookmaker although there are similarities), it is based on the concept of pooling risks where all lives insured contribute to the insurance pool, and a relatively small number of claims are paid from the pool. Pooling of risks is what makes the cost of insurance protection affordable.

SO WHAT ABOUT TRAUMA AND HEART ATTACK?

Recent developments in the sensitivity of the tests used to diagnose Heart Attack have resulted in Troponins being able to be detected down to levels of 14ngl. This is a major increase in sensitivity of this diagnostic test from Troponins at 0.60µl (600 ngl) i.e. over 40 times improvement.

Troponins at the 14ngl level can arise where there hasn't been a heart attack but simply from physical exertion. As a result the test can give rise to false negatives on the diagnosis of Heart Attack.

In the case where there hasn't been a Heart Attack the presence of very low levels of Troponin means that there has been cell death on a small scale, but not on a scale sufficient to cause serious or lasting damage to the heart.

So do you think that it is OK to pay just a Trauma benefit because Troponins are present but there has been no associated death of the Heart Muscle?

Whilst the increase in the sensitivity of diagnosis tests is important, there are behavioural issues associated with this development that are exacerbating the situation. For example:

Doctors telling their patients that they have had a 'mild' heart attack. The doctor's motivation is to get patients to change their lifestyle and improve their Cardiac Risk Factors. In this situation, all the client will hear are the words 'heart attack'.

Once a client has been told he has had a heart attack, and they have a Trauma policy, they have an expectation that the policy will pay.

The Life Company will determine their liability to pay the sum insured by assessing the event against the relevant definition(s) in the policy. Situations like the one described above, are likely to lead to a significant number of disputed claims.

The Adviser is caught in the middle and whilst most will have a good working knowledge of Trauma definitions, they are by no means experts on Heart Attacks, Heart Attack definitions for Trauma insurance and the underlying medical science.

Several Heart Attack scenarios can be envisaged with varying degrees of impairment:

1. Very Short Term Impact

If a client is back at work a few days after an 'event' and is "fully fit" (when compared to their health prior to the event) in 30 days, say, then the impact can be said to be minor.



It can be argued that in these circumstances if a full trauma benefit was paid, there is potential for the client to make a profit. It makes sense that a payment of 5% to 10% would be reasonable in these circumstances for the majority of current trauma sums insured.

2. Short Term Impact

If a client is off work for up to 6 weeks and it takes 12 months to regain full health. Then it makes sense that a more significant benefit should be paid to replace income and/or reduce debts to reduce the financial impact of the event.

In this case a payment of say 20% to 25% of the Trauma Sum Insured (i.e. similar to Angioplasty) could be argued as being reasonable.

3. Medium and Long Term Impact

If a client has had an event where there is an ongoing impact; for example, death of part of the heart muscle and/or 25% loss of whole body function. In this case, the client has had a physical loss that is unlikely to be regained. Having the Trauma insurance pay a full benefit makes sense in this case as the client is likely to lost significant ongoing income through being unable to work or working in a reduced capacity with corresponding loss of income.

THE COST OF THE NEW HEART ATTACK DEFINITION

Currently Heart Attacks make up approximately 15% of all Trauma claims. Evidence provided by Munich Re and Gen Re, show that if Heart Attacks were diagnosed based on the new definition were paid as claims, the proportion of claims will almost double (for males) to 195% of 2011 Heart Attack claims for males). This translates to approximately 30% of claims.

OK, you say that's only one event. However, Trauma is priced based on Heart Attacks making up approximately 15% of claims, one of the 4 major events. If all other things remain unchanged that would imply that an increase of almost 100% in the level of Heart Attack claims would result in an increase of approximately 11% (GenRe estimate) to 15% of premiums (my estimates based on the information provided).

The cost of Trauma is already high. The evidence for perceived high cost comes from the level of cover being taken out for Trauma policies when compared death and/or TPD cover. The 15% level of increase may be tolerable at lower ages but at the ages when Trauma premiums start to become really expensive (age 45 onwards), the higher level of premiums will prove to be just too expensive for a larger and larger percentage of insured lives - just when the cover is needed most.

POTENTIAL PRODUCT DESIGN RESPONSES

Companies could respond to the increase in cost in a number of ways:

- Increase premiums by using the new Heart Attack definition. The cost impact would be approximately 11% to 15% increase in premiums for males and 1.5% for females.



- Alter the product design by making the new Heart Attack definition an extra cost option. With this alternative the life company continues to pay Trauma claims for Heart Attacks on the old definition (Troponins at the 0.60µl level). Optional premiums would fund claims under the new definition. The cost impact for the optional benefit would be approximately 11% to 15% of the trauma premium for males and 1.5% for females.
- Alter the product design so that 'minor' heart attacks pay a partial benefit of 5% or 10%. This would imply a cost increase for partial events of approximately 1.5% of the total Trauma premium.
- Introduced a staged definition where minor heart attacks pay a 5% to 10%, more serious heart attacks 20% and debilitating heart attacks 100%. Cost between 1.5% and 15%, say approximately 5%. Note that this approach can only work for new policies as it is a reduction in the current benefit for heart attack unless it can be shown that no detriment applies.

Using this approach a new definition could be added where 25% loss of whole body function could be provided at a discount to current premiums. This means that insureds may be covered for serious heart attacks at a lower overall cost.

ONE ADVISER'S VIEW

Troy Edmondson has graciously provided his views on this issue:

"I think this could be the harmful to the industry.

Surely this was not the intent of trauma cover. A person who "suffers" a silent heart attack most probably has little time off work, and has not suffered financially. Yet some insurers now want to pay them out a 100% payout for a short term competitive advantage?

What is going on here? Surely Trauma Insurance is more than expensive enough already. This will certainly drive up premiums – and Australians will shun the cover.

In my opinion this is not what the industry needs or wants."

Troy Edmondson Authorised Representative
Business & Estate Planning Specialists Holdings Pty Ltd
ABN 69 588 756 320 AFSL 379410

SO WHAT DO YOU THINK?

So what are the product design options that you and your clients would prefer?

*Do you really want insurance that pays a significant benefit to a client who has **no ongoing loss?***

Are there other options such as limiting full benefits to where there is an ongoing impairment? Would these options be acceptable to you and your clients?

Are there other options that may be appropriate?



CONCLUSION

This article has been written to provoke discussion and tease out the views of Advisers not prescribe answers. Any comments about the issues raised should be made on the Linked-In website in the Australian Risk Advisers Group.

Similar discussions about income protection insurance were facilitated by MLC as part of their product launch about recent losses across the industry, without some change in how products are structured and developed, significant future price rises are inevitable. This is reminiscent of the situation in the late 90s where Income Protection products were wound back as some of the product option and/or features proved to be unsustainable as claim rates rose.

Part of the pressure comes from a very competitive market where companies strive to provide better and better products at competitive prices. It can be argued that competitive pressures sometimes result in undesirable outcomes 'if it goes too far' and we end up in a situation where premium rates need to rise, sometimes significantly.

So that's it, the new diagnostic tests are increasing the level of Heart Attack claims. Without some changes to the way Trauma products are structured we will see further increases in Heart Attack claims, not all which will be justifiable, and all clients will have to pay increased premiums.

What is your view? Have your say on the Linked In group Australian Risk Advisers

Stephen Dingjan BSc(Hons)
Managing Director, LifeRisk Partners

3 May 2012

The views expressed in this article are personal and do not reflect LifeRisk Partners research methodology when comparing product features.

ABOUT LIFERISK PARTNERS

Life Risk Partners Pty Ltd ABN 19 115 831 028 Australian Financial Services License No 411655

Under its AFS License, Life Risk Partners is authorised to provide general life risk insurance product advice to wholesale clients.

Life Risk Partners Pty Ltd is not owned directly or indirectly by any product provider.

As a specialist risk research house, we use our skills and experience to assess Life Insurance product features. We then combine product feature scores into products score and overall quote comparison scores.

The product research is used in

- LifeRisk Online our internet based product research and premium comparator where all premiums are based on real quotes from each company's quote systems.



- LifeRisk Benchmarks, research for Licensees to provide independent input into APL reviews and ongoing Risk APL research and management processes.

The LifeRisk Partners has significant experience with Life Insurance product research with team members providing the product research for BOSS Risk Dimensions and Life Research prior to the research being brought in-house in 2008 by its eventual owner *iress*. Members of the team also provided the Benchmarking research for Plan For Life Benchmarking reports and the AFA Life Company of the Year awards from their inception until February 2011.

For more information please go to www.liferiskpartners.com.au or call us.

LIFE RISK PARTNERS RESEARCH METHODOLOGY

Our methodology focusses on the main components of product features on a relative generosity of a product's terms and conditions. To help us do this we use a common sense approach; that is the more likely a benefit is to pay or the flexibility and ease of use of a feature, the higher the score. In addition, if benefits or features are substantially the same, they receive the same score.

This approach provides a sound foundation to our research and complements our premium comparison research where the premiums are based on real quotes. More importantly just as with doing quotes there is only one premium and product score from each company for each comparison.

Our focus is not limited to product features research and premium comparisons, we also report on financial strength and performance in key service areas that affect clients and advisers including Underwriting & New Business, Claims, Business Support and the Technology that supports key Life Insurance functions.