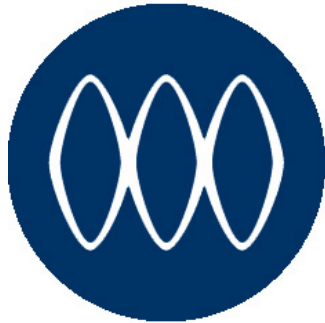


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Consultants and Actuaries

Critical Issues in Managing Critical Illness Insurance

Date: March 18 & 19, 2002

Critical Illness - A Brief Overview

A “Typical” Critical Illness Policy

\$

if

Lump
Sum

Cancer

Heart Attack

Stroke

Kidney Failure



Critical Illness - A Brief Overview

Lump Sum Benefits are “Free” Cash

\$

Lump
Sum

Can Be
Used
for...

Medical Expenses

Experimental
Treatment

Travel

Debt Restructure

Specific Expenses

Other



Sample Benefit Design

\$100,000 Payable on
First Occurrence of...

Cancer
Heart Attack
Stroke
Kidney Failure

Waiting Period (Elimination Period): Full benefits payable after an initial waiting period of 30 days.

Survival Period: Full benefits payable if insured survives until the 31st day after the occurrence.



Possible Benefit Options

\$\$

Double benefits if claim occurs before age 65

\$

Full benefits payable for additional illnesses

- Kidney Failure
- Organ Transplant
- Severe Burns, etc.

\$

Partial benefits for less severe conditions

- Angioplasty - 10%
- By-pass surgery - 20%



Critical Illness Pricing Assumptions

Three “Key” Types of Assumptions:



Policyholder behavior

morbidity

persistency

antiselection

acq. and maint. expenses



Agent training and motivation

commission

acquisition expenses

claims expenses



Corporate expectations

profit

risk



Critical Illness Pricing Assumptions



Know Your Critical Illness Customers - they are a subset of your current customers!

Who will buy?

Why will they buy?

What makes this product have “value”?

Where will they hear about it?

When will they purchase?



Critical Illness Pricing Assumptions



Know Your Critical Illness Sales People - they will be a subset of your current sales force!

How will agents be trained?

What tools will they have?

What will be their motivation?

Where can they create misunderstanding?



Critical Illness Pricing Assumptions



Know Your Corporate Goals

What is your company's tolerance for risk?

Does management understand how earnings will flow for this product?

Does management understand what the real risks are?

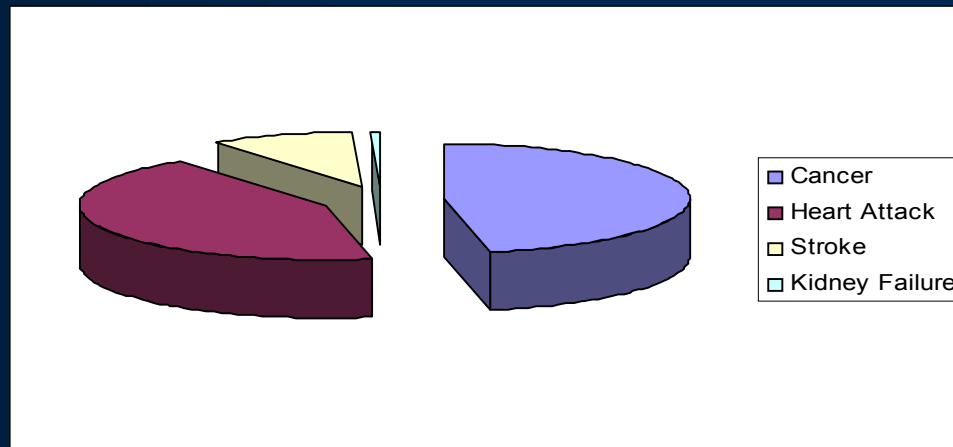
What tools will be available to manage this product?



Risk Characteristics

Some “Disease Diversification”

Average morbidity by 4 primary diseases



Antiselection Protection

Waiting Period - # days after issue before full benefits payable

Survival Period - # days after illness occurs before full benefits payable - if claimant survives.

Pre-ex Period - excludes pre-existing conditions



Underwriting

Considerations

Personal Lifestyle

tobacco use

avocations / hobbies / travel

Family History

relatives history of stroke, c.a.d., cancer

Medical History

c.a.d., stroke, diabetes, HIV, etc.

Physical Condition

height / weight



Underwriting (cont.)

Tools

Application

Attending Physician
Statement

Personal History
interview

Lab Testing

Medical Exams



Consider the three key types of assumptions.....

Consider the risk characteristics and risk management features.....

NOW, we can begin developing assumptions



Morbidity

Morbidity Sources

Specialty studies

Government publications

Internal data

Consulting organizations

Reinsurers

Morbidity modifications

Selection

Market factors

etc.



Lapse Rate

Pattern by duration

Year 1: high, but how high?

Years 2: 15%-20%

Ultimate: 12%- 15%

Expect variations by age.



Expenses

Driven by several factors:

Stand Alone vs. Rider

Individual vs. Group

“Packaged” Underwriting

Corporate Philosophy



Expenses (cont.)

Expenses:

Acquisition - consider “not taken” rate. Potential for “package” underwriting.

Maintenance

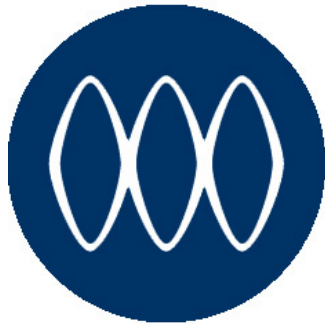
Claims - unique adjudication issues, no “run-out” period

Commission: Yr 1, 50%-70%

Renewal, 5%-15%



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