

## The Danes and Critical Illness

### *A true fairy tale told by Svend Illemann*



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*When developing a critical illness product firms can be sure of one two things: that critical illness is best sold in bulk, i.e. to a company for all its employees, or via a pension fund or a trade union, and also that it is best to follow the Kiss (Keep it simple stupid) philosophy, meaning: don't cover too many or exotic illnesses, merely a handful of the more common, which are known and understood by the public.*

*It is worth to mention that to some people it will come as a surprise that 67% of Denmark's working population are insured against critical illness – quite a high number.*

#### The first beginning

At FG we started developing a critical illness product back in 1994. We did not start from scratch, but were inspired and helped by companies who already had the product in their range and were willing to share their experience – good as well as bad.

In the United Kingdom we were very warmly welcomed, despite the product not having been a real success there, mostly for recessionary reasons. Our counterparts were, however, still very positive about the product – and not being manic about it, which can be an unhelpful side effect to a carefully prepared launch.

We were given much good advice, of which we made use of two pieces, viz. that critical

illness was best sold in bulk, i.e. to a company for all its employees, or via a pension fund or a trade union, and also that it was best to follow the KISS [*Keep it simple, stupid*] philosophy, meaning: Don't cover too many or exotic illnesses, merely a handful of the more common, which are known and understood by the public.

After a quiet launch in 1995 when we issued policies covering only 2,802 people, the breakthrough came in 1999 when the number of people we insured grew to 298,448. Today we have 690,000 people covered, which is almost 50% of the Danish market.

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### Today

Currently in Denmark about 1.5 million people enjoy critical illness cover. The upsurge in the numbers covered is mainly due to all contractual employment related pension policies having had this further element added to them over the last few years. There is besides an increasing uptake of the retail arrangements offered by banks and insurance companies to the open market.

This huge expansion has caught everybody by surprise, but at least it proves that the Danes have accepted the product.

The insured sum underwritten varies from DKK 60,000 to DKK 400,000 and averages DKK 90,000. We expect this to rise over the next few years.

### Claims

Our claims experience has not been very surprising. We started off insuring eight conditions, but increasing the original premium by only 20% has made it possible for us now to offer 17. Those 17 and the claims percentage relating to each are as follows:

Cancer	52,2%
Coronary thrombosis (coronary infarction)	11,3%
Bypass surgery of coronary thrombosis or balloon angioplasty	11,2%
Heart valve surgery	1,7%
Cerebral haemorrhage/thrombosis (stroke)	13,9%
Sacculate aneurysm of the brain arteries	1,1%
Certain benign tumours in the brain and the spinal cord	1,3%
Multiple sclerosis	3,6%
Amyotrophica lateralis Sclerosis	0,3%
Progressive muscular dystrophia	0,4%
HIV-infection as a result of a blood transfusion or infections caused by occupational transmission	0,1%
AIDS	0,1%
Renal failure	1,1%
Major organ transplants	0,3%
Parkinson's disease	1,1%
Blindness	0,2%
Deafness	0,1%

Thus cancer type illnesses trigger the most claims, over 50%, and of the various different types of cancer, breast cancer (predominantly of course in women) stands out to a remarkable extent. Amongst women claimants, cancer related payments add up to more than 80% of the total payments.

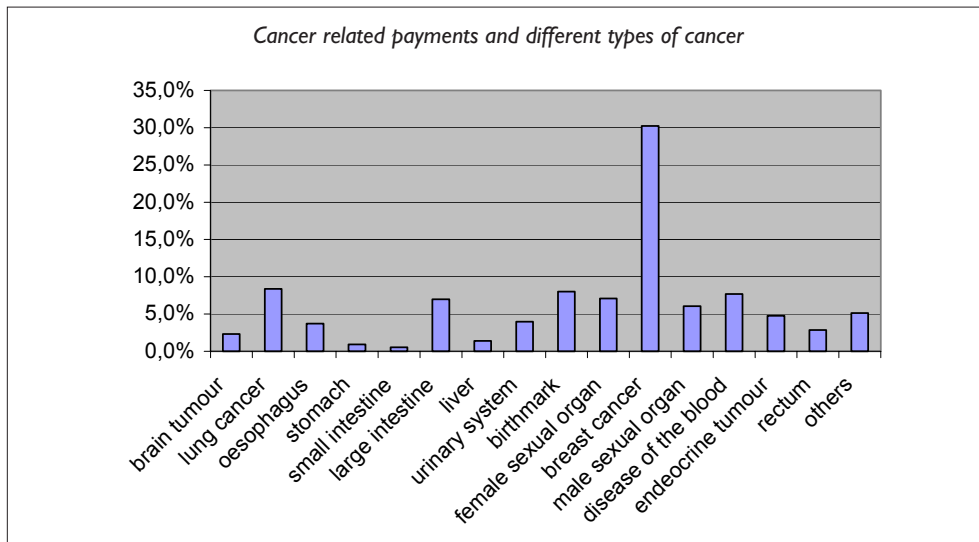
The matrix (next page) shows how FG's cancer related payments in 2003 were split among different types of cancer.

One particular limitation clause in the original terms of our insurance came in for criticism from some FG customer groups and from The Danish Cancer Society. Initially, the insurance offered only related to critical illnesses, the onset of which was diagnosed after the inception date of the policy, not before. In relation to cancer, a later diagnosed cancer was not covered, if the policyholder, prior to the insurance, had had any type of cancer.

The Danish Cancer Society claimed that insurance on that basis was unfair, on the grounds that you can recover fully from a cancer illness. In the odd case, policyholders reacted negatively, but that was inevitable, given the size of our portfolio and the sensitivity of the subject. It was often however not easy to defend a rule under which, say, a 55 year old diagnosed with lung cancer was not covered, due to having had testicular cancer 40 years earlier. Although we received some advice from our underwriters to stick to the original terms, we chose to widen our coverage of cancer, and to articulate a very straightforward and objective policy with regard to previous cancers.

Now, if a policyholder had suffered from cancer before the inception date of the critical illness insurance, and a minimum of 10 years has elapsed since the first diagnosis was made, during which there has been no relapse, then cover will extend to any later diagnosed cancer.

Our change of policy has met with wide



acceptance from our customer base, and the additional claims experience has been less than expected.

**In future**

There is no doubt that the number of diagnoses justifying claims will increase in times to come. The additional diagnoses which may

arise, however, may be stamped as ‘window dressing’, as the most frequently arising diagnoses are covered by the critical disease policy.

If history could be rewritten, one could feel tempted to offer coverage only for cancers and cardio-vascular diseases, accounting for approx. 90% of all payments.