Severity-Based Critical Illness Insurance

Since the late 1980s when the first critical illness (CI) products were developed and sold in Singapore, the insurance industry has remained innovative in reshaping this benefit. Severity-based critical illness insurance, first sold in 2009 by Great Eastern, is one of the developments.

Traditional CI policy pays out a lump sum in the event the insured person is being diagnosed with any of the 30 specified critical illnesses (i.e. advanced stage of illnesses) in a policy such as cancer and heart attack.

The severity-based benefit is a revolutionary approach to critical illness insurance where claims are paid out based on the degree of severity of illness. This means one could receive a payout at an earlier stage of illness, even if it is not life threatening. The intent of this product innovation is to make a benefit available for less critical illnesses. For instance, under the conventional CI insurance, a mild stroke may have no benefit paid out at all. With severity-based benefits, a portion of the total sum assured may now be payable.

How does it work?

There are usually 3 levels of severity which are used to determine the level of payout on a claim. These levels have been set to ensure that claims are paid out appropriately to reflect the impact that the serious illness has on your lifestyle. Since the launch of the first severity-based critical illness insurance a few years ago, the product design has quickly progressed and the competition among the insurance companies has became keener. Below is a typical example of the benefit payable, under both severity-based and traditional CI policies.

Severity Level	Covered Conditions	Severity-Based CI Policy	Traditional CI Policy
Early Stage	Carcinoma in situ of specified organs.	100% of SA* Cap: $75,000	X
Intermediate Stage	Carcinoma in situ of specified organs treated with Radical Surgery, which involves the total removal of specified organ.	100% of SA Cap: $150,000	X
Critical Stage	A malignant tumour characterised by the uncontrolled growth and spread of malignant cells with invasion and destruction of normal tissue. This is the definition in the conventional CI policies.	100% of SA	100% of SA

**SA refers to Sum Assured*

Under severity-based critical illness insurance, should one develop an earlier stage of a disease, a benefit commensurate with the severity level will be paid out accordingly. If there is any remaining benefit, it would be available for further claims should the illness worsen, or for a different disease. For example, if the life assured has early stage cancer, he may be able to claim a benefit of 100% of the insured amount subject to the cap. But if cancer progresses to the critical stage, the remaining benefit will be paid out. The policy will usually terminate when the full insured amount is paid out. On the other hand, under the conventional CI policy, the lump sum benefit is only payable upon diagnosis of the critical stage cancer.

Severity-based critical illness insurance is increasingly popular

This design change is intuitively appealing, as it tends to pay out on a lot more conditions than the traditional critical illness cover, which makes it relatively easier to claim than a traditional CI insurance. With medical advancement and growing popularity of periodic health-screening, early detection of critical illnesses is increasingly common. As the general public is becoming more health conscious, we are seeing a growing need for severity-based critical illness coverage.

How does it fit into planning?

But how does Providend view the severity-based CI policy? How can it be incorporated into our insurance planning methodology? Let's start by examining the financial impact of an earlier stage critical illness.

A lower severity illness could mean that it may be able to be treated at hospital, and the patient will likely be sent home for recuperation for a few months. Since quicker recovery from early detection may mean minimum disruption to income earning capacity, provision for income replacement for a lower severity critical illness may not be necessary.

The more direct financial impact would be the cost of treatment for the illness. To cover hospital bills, the suitable insurance should be a hospital and surgical (H&S) plan, which is the most important insurance for everyone to get. This plan reimburses the medical expenses that you incur in the hospital, regardless of the seriousness of the illness. With the right H&S plan in place, most of the hospitalisation cost can be covered.

However, we recognise that there may be some expenses not effectively provided under your H&S plan. These could be expenses such as newer treatment which may not be approved by MOH, alternative medicine or even a medical vacation. It is noted that most of these items are deemed optional. Without them, the illness could still be treated. But with the lump sum benefit from severity-based critical illness insurance, it may mean that one can have more resources to fund for his preferred treatment. Therefore, the provision of lump sum benefit for not so critical illnesses is deemed optional.

Where does it stand in terms of priority, compared to the traditional CI policies? The traditional CI plan is only payable for advanced stages of a critical illness. However, it is really upon such severity of an illness that we may end up with not just hefty medical expenses, but also a loss of income. The financial burden may then become too heavy to bear. Hence, the traditional CI plan forms an essential part of basic protection needs. This means traditional CI policies take a higher priority than severity based CI plans.

For medical insurance planning, the following are important to have in place. We list out the various items in terms of priority.

Priority	Coverage	What is it for?
Must Have	Hospitalisation and surgical insurance commensurate with your healthcare expectation.	Funds for hospital treatment
Should Have	Traditional Critical Illness policy that covers during your income dependency years	Mainly for income replacement, this gives you the option to stop working for a few years to recuperate.
Could Have (Optional)	'Lifetime' CI coverage	Funds for alternative treatment, long term medication or medical vacation in the event of CI.
Could Have (Optional)	Severity-based CI coverage	Provision for not so critical illness, for newer treatment, alternative treatment or medical vacation.

For whom is severity-based CI insurance more suitable?

This type of insurance may be appealing to the higher risk group, for instance those with a family history of critical illness. Such plans may also be useful for the selfemployed. For those who do not draw a regular income and may not enjoy any employment benefits such as medical leave, in the event of an early stage critical illness, they are likely to be at risk of an income loss while undergoing treatment and during recuperation. The payout from an 'early-payout' plan may also serve as an income replacement.

In a nutshell, severity-based CI insurance could complement our current medical insurance program. However the premium is quite expensive, about twice that of the traditional CI plan. The suitability depends on your unique circumstances.

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