

A Cover for critical illnesses

Such insurance policies can even be considered an investment

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PARKINSON'S disease, cancer, heart attacks and kidney failure have one thing in common: They are often defined as critical or life-threatening illnesses by the insurance companies that provide coverage against such illnesses.

Critical illness insurance has been available in Singapore since 1988. Typically, such a policy covers a list of 30 illnesses.

However, the list of 30 illnesses covered are different among the insurance companies here, although there would be overlaps for the more common illnesses such as cancer or major organ failure.

Hence, a person could get as many as 40 illnesses covered if he combined policies from different insurances - something that independent financial advisers have already structured for clients.

Critical illness policies are more often sold as policies providing a cash payout upon incidence and not on a reimbursement basis. In other words, the policy pays out the insured amount if a critical illness strikes regardless of the cost of the treatment.

This insurance against incidence and not the cost of treatment has interesting implications if we look at it from an investment angle.

Indeed, one could compare it to buying a call option. Let me expand on that.

Some 120 years ago, tuberculosis would have been considered a critical illness. Today, it is not anymore and it has been reported that some patients do not even finish their treatment.

Over the next five to 10 years, we are expected to see an explosion in the practical applications of our knowledge in biotechnology.

We are rapidly understanding the mechanics of Alzheimer's and Parkinson's diseases, among others. The global healthcare companies are spending immense sums of money to get to the cures first.

Notwithstanding the cost of patented biotechnology treatments, competition will drive the cost of treatment below what it is today. In other words, the exercise or strike price of the option will go down with time, implying an appreciation in the value of the call option.

At the same time, improved healthcare has been and will continue to lengthen the life expectancy of Singaporeans.

With longer life expectancy, the probability of critical illness incidence will increase.

This is analogous in options investing to the volatility of the security escalating with time. This implies again an appreciation in the value of the call option written on the security. As one of my advisers pointed out, buying a critical illness policy could be an indirect way of investing in the biotechnology sector.

In spite of patent protection, competition will drive prices down, thus benefiting consumers.

The chances are that one will not only be cured but will enjoy a surplus from the insurance payout because competition will ensure cheaper cures.

Caveat: The apparent free lunch in the long term notwithstanding, this should not be the primary reason for buying a critical illness policy.

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