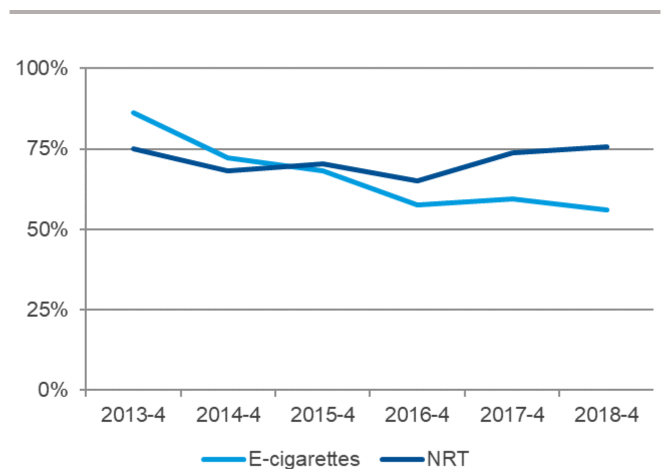
A new start-up is offering discounts for policyholders who replace smoking with less harmful alternatives. Should we offer those who vape cheaper life insurance?

Current issues: Vaping

Smoking remains the biggest preventable differentiator when it comes to life insurance costs. The trend of smokers quitting has been a major driver of increasing longevity in the last thirty years. Nicotine replacement therapies ('NRT') such as patches and gum have been popular for many years, although the success rates for those using them to stop smoking tend to be low[1]. Hence, insurers have historically treated potential policyholders who use any nicotine products as smokers.

However, over the last twenty years, the use of electronic cigarettes of various forms to inhale vapour laced with nicotine has become widespread. Initial studies have indicated that vaping is both less harmful than smoking and more successful in helping smokers break their habit than other NRT[1,2]. Is it time to consider charging vapers lower prices for life insurance than regular smokers?

Graph 1: Percentage of NRT and E-cigarette users who continue to smoke



A new target group?

While it may appear, particularly to those who live or work in large cities, that every other person is vaping, in fact only around 5%[3] of the adult population are regular users, and this figure has been fairly stable for the last couple of years. The biggest difference in recent years is the increase in the number of vapers who no longer smoke. In 2013, around 85% of vapers were dual users (who smoke and vape); in 2018, this number had fallen to 55%[4]. The increasing pool of users who vape exclusively would be the target for insurance products aimed at vapers.

Scientific studies indicate that the vapour used in e-cigarettes is less harmful than cigarette smoke[2]. However, there are indications that some of the harm caused by smoking, may also be caused by vaping[5]. Public Health England state that vaping is 95%[6] less harmful than smoking; however, it is not clear what this figure is based on. The prevalence of vaping is too recent for a long-term study of the health outcomes and impact of vaping vs smoking to be possible. A small discount, that insurers feel is almost certainly prudent, may be the only possible option at present.

If a vaper applied for insurance, the insurer can reasonably assume that they are an ex-smoker. The risk an insurer is exposed to concerning smokers is often thought to be proportional to the length of an individual's smoking history and how heavily they smoked over that period. The risk posed by covering vapers on preferential rates may therefore be highly correlated with age.

[1] See Barbeau, A. M., Burda, J., & Siegel, M.
[2] See Hajek, P., Etter, J. F., Benowitz, N., Eissenberg, T., & McRobbie, H.
[3] See Office for National Statistics
[4] See West, R., Proudfoot, H., Beard, E., & Brown, J.
[5] See European Lung Foundation
[6] See McNeill, A., Brose, L. S., Calder, R., & Hitchman, S. C.

Challenges

By far the biggest challenge in providing vaping-differentiated rates, however, is the failure of policyholders to stop smoking. If we consider vaping to be a smoking cessation aid, then five years after insuring a vaper they are likely to have either successfully quit nicotine altogether, or they will have relapsed into smoking.

Those who have successfully stopped will be eligible for non-smoker life insurance products after a year, and are therefore likely to lapse their vaping policy. This anti-selective lapse, with those who have returned to smoking highly incentivised to hang on to their 'cheap' policy, may make the product unsustainable, particularly in the advisor market.

Potential solutions

To control this risk, a managed product may be the only viable option, with regular checks to ensure that vapers have not started smoking again. Tests that can differentiate between smoking and vaping are available, but are prohibitively expensive to use regularly in the short term. A reviewable product, which is guaranteed never to be more expensive than the equivalent smoker product, and relies on annual policyholder declarations, may be viable. Rates could be updated based on individual policyholder actions as well as wider industry experience of the impact of vaping.

However, such a product requires a lot of effort to target what at present appears to be a small population. Concentrating on further differentiating smokers and non-smokers to reflect the relative risks – as many insurers have done in recent years – may have a bigger impact on overall competitiveness.

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The underlying enigma

ReThink – the problem

The one question that our industry repeatedly asks is; "why don't people buy life insurance?"

From 2013 to 2017, there has been a 14%[1] reduction in the number of individual term, whole of life, income protection and critical illness insurance policies in force in the UK.

With advances in our underwriting journey, our efforts in tackling cognitive biases and offering more comprehensive cover, why have these improvements not reflected in increased sales across the industry? Surely, today's customer should find it easier to buy our products, feel a greater need to plan ahead and find greater value in our products. Have we missed the mark? Can we do more?

One could argue that a period of austerity following the 2008 financial crisis, the decline in the number of IFAs and the PPI scandal have played their part in reduced sales. But, if people truly saw the need for the product, our sales should, at the very least, remain resilient to these shocks.

ReFlect – the three buckets

This is a multi-faceted issue but allow me to simplify and make a bold statement. All the possible explanations for why people do not buy insurance fall into one of these, or across these three buckets: perception, expertise and reputation. Below are some comments that explain what each bucket covers. It is by no means an exhaustive list.

If you think of a reason that does not fit in these buckets, write to us!

[1] See UK Insurance Key Facts 2014 & 2018

Various **perceptions** about life insurance exist:

- I don't need it
- I find it uncomfortable to talk about
- The government will look out for me
- It's too expensive
- I'll get declined anyway
- I don't trust insurers (with my data)

These factors manifest themselves in postponement or inaction; kicking the bucket down the road, so to speak. If the person overcomes this initial inertia, they face the next roadblock, **expertise** or the 'how' factor.

- How do I start the process?
- How do I know what product to buy?
- How can I be confident in my choice?

There are a lot of tools out there to help 'demystify' the world of insurance but that requires a willingness to learn. And let's face it, for many people, insurance is a bit of a dry subject. For those willing to put in the effort, there is a final mental barrier to overcome, **reputation** as companies put it or 'trust' as customers do.

- Will they pay my claim?
- Will they use jargon to get out of paying?
- Profits will always come first.

Overcome these buckets, and you are likely to have people buying insurance. Simply put, a person should want the product, know how to get it and trust that the product will deliver.

Now, would it not be nice to have one idea that could tackle all three buckets?

Tune in next quarter for a potential solution.

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New CI conditions

Neuroendocrine tumours

Neuroendocrine tumours ('NETs') are tumours that start in cells of the neuroendocrine system, found in most organs. Neuroendocrine cells are similar to nerve cells: they receive signals from the nerves and respond by producing and releasing hormones. These hormones control many body functions such as digestion and breathing.

While NETs can occur anywhere in the body, the most common sites are the small and large bowel, appendix, pancreas, stomach and lungs. More rarely, they can occur in the liver, gall bladder, bile duct, kidneys, ovaries or testis.

CI coverage

Most critical illness protection providers now cover NETs of 'low malignant potential' with specified surgery as an additional payment.

Some insurers cover NETs of low malignant potential of the breast as standard and all other named sites in their upgraded option. Others cover NETs only in their upgraded product, but may include a catch-all definition to cover all sites rather than restricting cover to named organs.

Common wording

"Neuroendocrine tumour (NET) of low malignant potential diagnosed by histological confirmation and that has been treated by surgery to remove the tumour.
For the above definition, the following are not covered: tumours treated with radiotherapy, laser therapy, cryotherapy or diathermy treatment."

Our view

After research, Hannover Re UK Life Branch believes that **all NETs meet the criteria for a full payment under the ABI cancer definition.** Using 'low malignant potential' to differentiate NETs from other malignant cancers is not effective because the medical profession has not used this term with reference to NETs for around fifteen years. In time, all NETs would metastasise and oncologists consider all NETs to be malignant. It is therefore very likely that a policyholder with a histology report stating they had a neuroendocrine tumour could successfully appeal to the ombudsman that they qualify for a full payment under their policy.

We understand the rationale for wanting to differentiate the amount paid depending on the severity of the NET, but insurers may wish to carefully consider their NETs definition in conjunction with their standard full payment cancer definition and question whether the additional payment definition adds value for their customers. Ultimately, we may need a complete rethink of the ABI cancer definition to bring benefit payments in line with severity.

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