



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 low¹. 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?

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.

¹ See Barbeau, A. M., Burda, J., & Siegel, M.

² See Hajek, P., Etter, J. F., Benowitz, N., Eissenberg, T., & McRobbie, H.

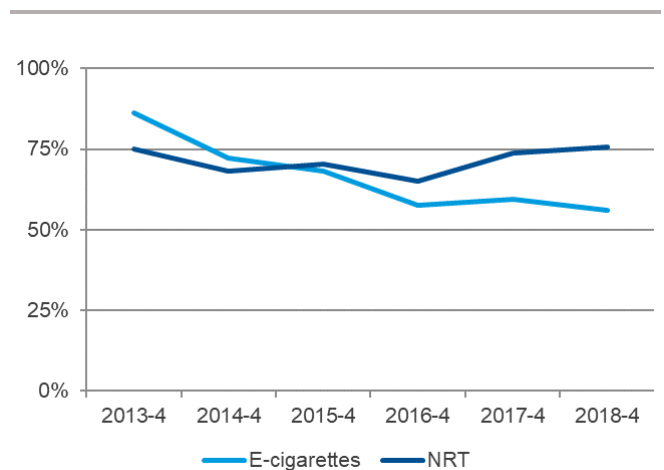
³ See Office for National Statistics

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.

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



Scientific studies indicate that the vapour used in e-cigarettes is less harmful than cigarette smoke². However, there are indications that some of the harm caused by smoking, may also be caused by vaping⁵. 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.

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.

Author



Tim Smith
Head of Protection
Hannover Re UK Life Branch
Tel. +44 20 3206 1811
tim.smith@hannover-re.com

References

- Barbeau, A. M., Burda, J., & Siegel, M. (2013). Perceived efficacy of e-cigarettes versus nicotine replacement therapy among successful e-cigarette users: a qualitative approach. *Addiction Science & Clinical Practice*, 8(1), 5. doi:10.1186/1940-0640-8-5
- European Lung Foundation. (2019). *New heated tobacco device causes same damage to lung cells as e-cigs and smoking* [Press release]. Retrieved 16 April 2019, from <https://www.europeanlung.org/en/news-and-events/media-centre/press-releases/new-heated-tobacco-device-causes-same-damage-to-lung-cells-as-e-cigs-and-smoking>
- Hajek, P., Etter, J. F., Benowitz, N., Eissenberg, T., & McRobbie, H. (2014). Electronic cigarettes: Review of use, content, safety, effects on smokers and potential for harm and benefit. *Addiction*, 109(11), 1801-1810. doi:10.1111/add.12659
- McNeill, A., Brose, L. S., Calder, R., & Hitchman, S. C. (2015). *E-cigarettes: an evidence update. A report commissioned by Public Health England*. Retrieved 16 April 2019, from Public Health England website: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/733022/E-cigarettes_an_evidence_update_A_report_commissioned_by_Public_Health_England_FINAL.pdf
- Office for National Statistics. (2018). *Adult smoking habits in the UK: 2017* [Statistical bulletin]. Retrieved 16 April 2019, from <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifexpectancies/bulletins/adultsmokinghabitsingreatbritain/2017>
- West, R., Proudfoot, H., Beard, E., & Brown, J. (2019). *Trends in electronic cigarette use in England* [PPT]. University College London. Retrieved 16 April 2019, from www.smokinginengland.info/latest-statistics

Follow us on LinkedIn to keep up to date with the latest Life & Health news.

The opinions expressed in this publication are those of the authors, which are not intended to be advice and should not be construed as such. This publication is subject to copyright. All rights reserved. Apart from any fair dealings for the purposes of research or private study, no part of this publication may be reproduced, stored in a retrieval system or transmitted in any form without the prior permission in writing of Hannover Re.

Single copies may be made for the purposes of research or private study. Multiple copying of the content of this publication without permission is always illegal.

© Hannover Re UK Life Branch. All rights reserved.