

Critical illness claims

Is non payment of critical illness claims endemic, or is it mostly tabloid media hysteria?

Stephanie Spicer investigates

It is hard enough to persuade clients to protect their finances should a serious illness occur, what with the cost and perceived complexity of critical illness products. But add to that uncertainty over whether the policy will actually pay out when needed and the challenge takes an uphill trajectory.

There are signs, however, that the situation may not be as bad as it has appeared.

Critical illness providers and insurers generally are working hard to address the reasons why claims may have to be rejected. And the

ABI has issued guidelines on non disclosure of long term protection insurance products, which should also clear up some uncertainties.

Things are looking up

The statistic that one in five critical illness claims are rejected has long loomed over the industry. It is little consolation to a genuine claimant when it is pointed out that the reason for their claim being rejected was because they forgot or omitted to tell the insurer something that would have impacted on how the policy was underwritten initially – whether they did that deliberately or not.

Specialist IFA Lifesearch has argued for some time for insurers to publish percentage claims paid data and reasons for rejection. To this end the most recent data, shown in **Table 1**, demonstrate that insurers are far from rejecting claims wholesale. In fact Lifesearch goes so far as to say that the new figures from the past 12-18 months show a marked improvement in the number of claims being paid by life offices.

About 84% get paid and 16% declined and that breaks down to approximately half non-disclosure and half not meeting the definition. The Table shows that the average number of paid CIC claims has risen by 3% within the past 12 months. Also, there is less than a 10% chance that claims will be declined for non-disclosure – including those who knowingly provide false information.

“We believe a number of factors are influencing these improvements, including the improved clarity in the way products are communicated and sold, which allows customers to understand the full implications of the policy,” says Matt Moody, policy adviser at Lifesearch. “Recent changes made by the ABI to improve clarity as well as increased media attention have both raised consumer awareness.”

Norwich Union took a novel approach to addressing the issue of non-disclosure on critical illness and life policies last year by revisiting 5,000 policyholders who had taken out policies in the past two years and asking them to check whether there were any mistakes or omissions in their original application. This pilot study, conducted in two tranches, underlined not only what insurers need to consider when underwriting policies but also how consumers approach disclosure.

Willie Mowatt, director of protection at Norwich Union, explained the difference in the two phases of approach to customers: the first half of policyholders contacted were not sent a copy of their original application form, and the other half was.

“There was quite a change in the response rate and the disclosures because of that,” says Mowatt. “In the first phase the overall response rate was 17% of which 7.6% of policyholders disclosed further information ranging from insignificant and not having a material effect to ones that

Table 1 : Claims paid data

Insurer	Claims paid (%)	Claims declined information
BUPA (Jan-Jun 2007)	80.3	Declined 19.7% Non-disclosure 9.1% Not meeting definition 10.6%
Friends Provident (2006 – full year)	81.3	Declined 18.7% Non-disclosure 9.9% Not meeting definition 8.8%
Legal & General (2006 – full year)	83.3	Declined 16.7% Non-disclosure 12.1% Not meeting definition 4.6%
LV= (2006 – full year)	81.4	Declined 18.6% Non-disclosure 8.8% Not meeting definition 9.8%
Norwich Union (Jan-Jun 2007)	86	Declined 13.5% Non-disclosure 6% Not meeting definition 7.5% (under consideration 0.5%)
Scottish Equitable (Jul 2006-Jun 2007)	80	Declined 20% Non-disclosure 10% Not meeting definition 10%
Scottish Provident (2006 – full year)	80.3	Declined 19.7% Non-disclosure 10.7% Not meeting definition 9%
Scottish Widows (Oct 2005-2006)	84	Declined 16% Non-disclosure 8.5% Not meeting definition 7.5%
Skandia (1991-Jun 2007)	89	Declined 11% Non-disclosure 2% Not meeting definition 9%
Average	83.8	Declined 16.1% Non-disclosure 8.1% Not meeting definition 8%

Notes: Insurers that have been in the critical illness market for less than 3-5 years may not yet have any meaningful statistics to publish. As yet no insurer is able to confirm the number of proportionate claims paid.

would have had an impact on the underwriting decision we made. Then 1% disclosed information that was significant in terms of impacting the underwriting decision."

When it came to the second tranche, who were sent their original application form, while at the time of going to press Norwich Union did not have the final response figure it can confirm that it was lower. "Of those who did respond the number who disclosed further information was also a lot lower at 2.2% and the proportion that disclosed significant information fell to 0.3%," says Mowatt. "We were giving people a copy of the original application form, so it gave them a reference point which wasn't there for the policyholders in the first phase."

Guidelines offer light

There has been a significant development in addressing how insurers should tackle incidences of non-disclosure with the publication of the ABI's guidelines 'Non disclosure and treating customers fairly – claims for long term protection insurance products'.

The ABI has outlined three categories of non disclosure which are:

- Innocent,
- Negligent and
- Deliberate or without any care.

The outcome proposed for each category is that, where the non disclosure was innocent, the claim will be paid in full; where negligent, a proportionate remedy will be applied to the claim; where non disclosure was deliberate or without any care the claim will be declined and the policy cancelled from inception.

Mowatt welcomes the new guidelines. "It will not cure all ills but in terms of the policies that are outrightly avoided, the onus is very much on the providers to make sure there is evidence to support that and very clear evidence of non-disclosure," he said. "We would see a movement away from deliberate and without any care into negligent so that will help. But we still have to make sure we get disclosure right because there will be disproportionate payments paid as part of that."

IFA Peter Chadborn, principle at CBK also welcomes the guidelines. "From an adviser point of view the guidelines have to be welcomed because it makes it a lot clearer for us to understand how payouts are decided and in turn we can relay this information to clients and hopefully make it better for consumers to understand."

Chadborn's firm, however, took the stance a couple of years ago that it was not going to complete clients' application forms for them. "Because of our concerns of non disclosure we needed to remove ourselves from that process, so we separated the advice and the application process," he says. "Once we have advised the client and they have decided to take out the policy we then present them with the application form for them to take away and fill in in their own time."

It is this approach in Chadborn's view that its client persistency levels are high, and its advice process pretty robust. "We have the whole non disclosure discussion at the point of sale and then we say that is the end of the advice process and now you are at the application process. In a lot of disputes regarding non paid claims the unsuccessful claimant will be alleging that they gave the adviser the information and the adviser didn't write it down. Then the adviser says the client had the chance to read the form and sign it and everything is open to debate."

While insurers now have clear guidelines as to when they have to reject claims and when to pay out proportionately in cases of non-disclosure, ensuring clients get the message of the importance of disclosing all relevant medical information when applying for critical illness is crucial – as are the consequences of not doing so.

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