

## Critical illness - A reputation in recovery

**Critical illness insurance might not be the bête-noire of the consumer financial press it once was, but sales are still falling. Madeleine Davies asked five past winners of the Health Insurance Critical Illness Intermediary of the Year Award and one key media commentator why they think this is.**

In the past year, providers of critical illness (CI) insurance paid out a record proportion of claims. Meanwhile, complaints to the Financial Ombudsman Service (FOS) about the product have halved.

Those trends should, in theory, be positive news for the oft-maligned product. However, sales are still falling. A simple consequence of the financial climate or evidence that consumer confidence has yet to recover? We asked advisers who have won industry awards for their specialist knowledge of the product for their interpretation.

"It takes a long time to build up consumer trust," says Kevin Carr, who won the award in 2004 while working at LifeSearch, the specialist protection intermediary. Like many of our winners, Carr, now director of protection development at PruProtect, an insurer, highlights the Association of British Insurers' (ABI) guidelines on non-disclosure as evidence of industry progress.

However, whether this happened in time to stem the public's loss of faith in the product is a bone of contention.

"It would have been fantastic if the issues had been addressed right from the start," says Jeff Prestridge, personal financial editor at the *Financial Mail on Sunday*. "They [providers] are so blinkered, and they fail to take into account or consider the consumer. Often it is about claims reduction, keeping them under control, without realising the damage that can be done when they are handled in what can only seem like an insensitive way."

Prestridge tells Health Insurance he has been "angered" when claims rejected by insurers are paid following the newspaper's involvement. Nevertheless, he readily acknowledges that the industry has "taken grasp of the issue" and describes both the ABI's initiative and the release of claims statistics by providers as "fantastic".

### ADVICE PROCESS

There is agreement among our winners that progress has been made in the advice process in recent years. Peter Chadborn of CBK (Colchester) (2007 winner) was motivated by the release of claims statistics to tackle non-disclosure by separating the advice and application process, leaving clients with responsibility for completing the latter.

"That was a big risk for us because we could be faced with people changing their minds," he admits. "But we needed to do it as a quality measure and if we have done a good job, they will not change their minds."

While there was no change in take-up, Chadborn welcomed the arrival of tele-interviewing as "manna from heaven".

Jason King, formally of Torquil Clark Life Insurance (2006 winner), says that poor adviser knowledge and a lack of good sales systems was a key industry weakness during his time as an IFA.

"The way that advisers got quotes didn't lead them to being able to make rounded recommendations," he says.

King credits Direct Life & Pensions with improving this through the launch of its Intelligent Protection system but also suggests that the collapsing mortgage market had since forced brokers to up their game. "Advisers were sticking to what they knew best," he says. "They are being forced to look at areas they are less comfortable with. But with the improvements to the systems it is easier than they thought."

Yet despite improvements from the adviser side, our winners highlight "worrying" levels of declination and rating from providers. King, who now runs a non-advice life and protection website called Memigo Money Ltd, says that during his time as an adviser, "something like four in 10 applications" were declined or rated, a "constant source of frustration for client and adviser".

Wayne Jackson, sales director at Premier Choice Healthcare (2005 winner) estimates that a third of applications from his office are rated or declined. Underwriting could also be improved, he suggests. At the time of going to press Jackson was challenging an insurer who added a 100% loading on a business protection policy – despite using the same medical information as another insurer who offered life and CI insurance with no loading.

"That is worrying," he says. "I find that unbelievable."

### MEETING THE CONDITION

Concerns over underwriting aside, the industry also still "falls down" on CI claims that are declined for not meeting the definition, according to Kevin Carr.

"That's an emotional and subjective area," Carr says. "People cancel their policy and it ends up in the press or on prime time TV and that continues to put people off."

Unsurprisingly, the director of protection development at PruProtect believes that severity-based policies are the way forward. His fellow winners express mixed sentiments.

"There are always going to be arguments about claims," says Alan Lakey of Highclere Financial Services (2008 winner). "When you get anything to do with illness, there will always be areas of dispute. I think we need to accept that we will never eradicate it; it will be impossible."

Lakey remains reluctant to recommend a PruProtect policy, arguing that decisions about the level of severity of illness remain subjective and that it is difficult to calculate the likelihood of a client being diagnosed with some of the conditions, and levels of condition, listed.

However, Chadborn describes himself as a "big fan" of the approach.

"In my experience, customers and clients perceive a sense of fairness," he says. "The layman can understand that their payment should be in proportion to how ill they are."

## SALES

While steps have been taken to address the reputation of the product, the fact remains that sales are falling (see chart). Carr attributes this to reputation, price and the link to mortgages.

"The price of CI went up quite significantly a couple of years ago," he explains. "There was a lot of turmoil in the industry where companies and reinsurers were concerned about offering a fixed list of illnesses and fixed premiums because you can't predict medical science."

The winners have no shortage of ideas about what the industry needs to do to help them turn these statistics around. Jackson would like to see total permanent disability disappear altogether, Carr wants a more public promotion of CI by the industry and Chadborn suggests that more providers follow the example of the likes of Bupa, Zurich and Fortis by offering exclusion-based premium reductions.

There are signs that Carr may get a receptive ear from the consumer press.

"Of course we are here to battle for the consumer, but there is a key role to educate people in the art of good financial management," says the Mail's Jeff Prestridge. "That includes covering change within the industry for the better. I am happy to brave those companies that fail consumers but I do often applaud those that make progress which I think empowers consumers."