In focus: Critical illness

As the percentage of critical illness payouts continues to increase, the protection industry is enjoying a moment of well earned praise. However, as Edmund Tirbutt reports, more needs to be done to improve consumer confidence still further

Having emerged from a sticky patch, the individual critical illness (CI) cover market seems remarkably at ease with itself. The work done by the Association of British Insurers (ABI) on clarifying policy wordings and on combating non-disclosure is clearly paying off, as is the widespread use of teleunderwriting.

Indeed, such is the confidence of the reinsurance community that exclusion clauses for war, HIV and virtually everything else have been disappearing about as rapidly as Woolworths' pick 'n' mix, and there is a clear trend in the direction of guaranteed premium rates – something that only a few years ago lack of reinsurance capacity made impossible.

Jason Hurley, head of sales and marketing, UK and Ireland at reinsurer RGA, says: "There are no storm clouds on the horizon. Although there are certainly risks associated with CI, particularly around guaranteed premiums and definitions, these are well understood by reinsurers and we have sufficient capital to underwrite them. It's not just due to the work done by the ABI but also due to the work done by reinsurers themselves in studying their own data over the last 10 years."

Greatly improved claims statistics represent the definitive proof in the pudding and it should not be long before any journalist who refers to "one in five claims being declined" becomes vilified for gross inaccuracy. Among those reporting to have paid out over 90% of claims during 2008 are Legal & General (93%), AEGON Scottish Equitable (91%) and Zurich (91%). Even insurers still registering slightly lower payout ratios invariably point to an improvement on 2007 and a dramatic decline in claims refused for non-disclosure. For example, Skandia Life (89%) declined no claims for non-disclosure at all during 2008 while LV= (87%) declined only 1%.

The saddest of would-be party poopers could try to argue that the figures for claims paid are slightly misleading on the grounds that they now include their fair share of proportional pay-outs but the general feedback is that consumers tend to find few issues with receiving a proportional pay-out if the reasons for it are made clear(see page 14).

Only four issues are apparent on which opinion is subject to any significant division: the extent to which the economic downturn is affecting demand for CI business, the desirability or otherwise of the "conditions race", whether severity-based cover (as PruProtect maintains) represents the future of CI, and what should be done about total permanent disability (TPD) – which has an industry-wide claims declinature rate of 56% and has been the subject of considerable work in progress at the ABI.

SALES

Swiss Re does not report the official CI sales figures for 2008 until mid May – look out for details in the June issue – but most feedback suggests that sales patterns have been no worse than flat or slightly down. On the one hand consumers are feeling the pinch but this is being counteracted to an extent by the fact that intermediaries have been hit by downturns in the mortgage and investment markets and are therefore focusing more heavily on protection. Even those who have already trawled through their entire client banks in order to have conversations about protection now have an excuse to re-contact some of the same individuals on the pretext that recent sharp falls in interest rates may have reduced their mortgage outgoings and freed up money that can be spent on CI.

A further useful sales boost will also hopefully take place in the later stages of this year as a result of the launch of the Consumer Protection Insurance Engagement campaign – conceived by LifeSearch's Tom Baigrie to make the public more aware of the benefits of protection. This project, which the vast majority of the CI industry has already signed up to, is currently at the research stage but it is hoped that the promotion work will actually begin in the final quarter of 2009.

Roy McLoughlin, senior partner at central London-based IFA Master Adviser, says: "Our CI sales have definitely increased during the last year and that trend is still continuing. We think consumers are now paying more attention to protection needs because of uncertainty."

However, Alan Lakey, partner at Highclere Financial Services, an IFA based in Hemel Hempstead in Hertfordshire, acknowledges that a few clients have been asking to cancel cover because of the economic downturn, particularly those who are unemployed or on a four day week.

He says: "In many cases I manage to get them to take out a lesser level of cover but if they have actually been made redundant they tend to cancel altogether. You can't always have a meaningful conversation with people who have already decided what to do. They can sometimes be very defensive and may say that they will consider CI again in a few months' time if they get a job."

Legal & General and Norwich Union have experienced sales decreases during 2008 of around 10% and 15% respectively. LV= also refers to a small sales decrease last year of "under 5%" but has experienced increasing sales this year – albeit following its decision to provide a free element of CI cover to those who took out its income protection (IP) between February and April 2009.

Bright Grey and AEGON Scottish Equitable, which report CI sales increases for 2008 of "under 5%" and "nearly 10%" respectively, are a little guarded. Bright Grey suspects that its figures were pepped up by campaigns it ran before the recession started which emphasised the importance of intermediaries not relying on mortgage-related protection business. AEGON Scottish Equitable refers to research it has done with the Future Foundation highlighting a sizeable minority who are considering cancelling their insurance policies during the next six months to save money. Worryingly, CI was the third most mentioned form of cover – behind payment protection insurance (PPI) and annual travel insurance.

More spectacular performances are reported by PruProtect, which refers to new business applications "currently running at three or four times the number this time last year" and by AXA Life and Bupa, which report new CI business to have increased during 2008 by "around 30%" and 38% respectively and to have maintained similar momentum during the opening months of this year.

These success stories, along with slightly shorter-term dramatic increases in demand reported by the likes of progress from Royal Liver, Fortis, Skandia and Zurich suggest that those companies who have been putting the most into improving their overall propositions in order to add value and differentiate themselves from the opposition have been enjoying the greatest sales increases during the downturn.

A QUESTION OF SEVERITY

PruProtect increased the appeal of its severity-based CI offering last November by re-pricing downwards and introducing a "lock-in" safeguard so that those who fail to engage in Vitality activities no not experience any increase in premiums – but premiums still reduce for those who do engage.

No other CI insurers (apart from arguably Virgin Money, which only sells direct) have gone down the severity-based route yet and, even if some do eventually, Norwich Union, which has taken a very close look at the concept, clearly is not going to be one of them.

Richard Verdin, director of protection at Norwich Union, says: "We have decided against doing it because, although it is theoretically a great idea in practice, it becomes very complicated. It naturally sets you up to have disagreements at the point of claim as there are more conditions to argue about around the edges and you have to ask whether customers really want a terms and conditions document of over 100 pages long.

"Furthermore, although those who say that severity-based products are the future point out that customers get paid earlier, only some get a proportion earlier while others have to wait even longer to get the equivalent of a full payment. It seems that only some customers are better off and that some others are a lot worse off. With standard cover you meet the definition and get paid whereas with severity-based cover you may meet a definition and get only some payment."

Nevertheless, there is a slight trend in the direction of severity-based products in the sense that insurers such as AXA, Bupa and Skandia have riders or partial-payment facilities for certain conditions which pay only a fraction of the sum assured whilst enabling the policy to remain in force.

Peter Chadborn, principal at CBK Colchester, an IFA, says: "I would prefer to see providers paying earlier for cover on core definitions rather than adding a lot of window dressing. If I am talking to a client about CI they perceive me to be talking about the main areas such as cancer, heart attack and stroke. So insurers should follow PruProtect's lead and consider adding an element of severity.

"Fortis and Bupa are reducing premiums when there is an exclusion for cancer or multiple sclerosis and AXA Life has said it's going to do so, and other insurers have got riders for certain conditions.

"It's a bigger challenge to include riders and severity than simply to tag on new conditions. I challenge any provider to do market surveys and ask consumers if they want earlier pay-out on cancer or lots of additional conditions covered they've never heard of. It will be the former every time."

THE CONDITIONS RACE

Nevertheless, there is certainly some correlation between those companies who have added new conditions and those who are proving successful. For example, progress from Royal Liver increased its number of illnesses from 31 to 40 in October 2008 and experienced a 200% increase in sales in the following four months.

Andy Milburn, head of marketing at Munich Re (UK Life) – himself a former marketeer at progress – says: “We support providers adding new conditions because we did some research among IFAs in September 2008 and they said that adding conditions adds value and makes it easier to sell. The problem is that everyone talks about the conditions race but they clearly haven’t asked many of the people who sell the products.”

What is commonly overlooked, however, is that most of those companies that have been introducing new conditions or who have for long boasted the widest ranges of cover have also beefed up their propositions in other ways by, for example, adding definitions that go beyond the ABI’s minimum requirements, reducing their prices, significantly improving their service capabilities or offering value added services (see box on page 36). So in many cases it is the overall package that is triumphing and not necessarily just the sheer quantity of conditions covered.

Highclere’s Lakey is certainly keenest on a number of companies who have, among other things, some of the largest ranges of conditions covered but his praise invariably extends towards other attributes in addition.

He says: “I am probably doing more business with Fortis than with anyone else because its standard CI plan is very good value in terms of the number of conditions covered and, more importantly, its definitions are better than the others and its pricing is very competitive.

It also has a straight-through processing system which around 80% of policies are going through in the first two days with no aggravation. It is similar to progress from Royal Liver’s but differs in that it is interactive with drop-down boxes asking for further information.

“I also like Bupa, which still covers angioplasty and, like Fortis, has a high quality of definitions and is especially unusual in covering loss of one limb rather than two. But, additionally, I have to say both progress from Royal Liver and Friends Provident have pulled themselves up in terms of both the number of conditions they cover and the quality of their definitions.”

Michael Webber, proprietor of national specialist intermediary The Health Insurance Shop, is also very keen on Bupa and especially likes that fact that it is unusual in covering diabetes – albeit only Type 1 (insulin-dependent). He finds this is a useful selling point to attract Asians, who tend to be aware that they are unusually susceptible to diabetes. Indeed the Health Insurance Shop’s manager in the Birmingham area, who is Asian, places 90% of his CI policies with Bupa.

Webber says: “Bupa can be more expensive than some other CI providers but you get a better deal. If you tell an Asian they need to spend a few pounds a month extra to obtain a CI policy that covers at least some form of diabetes they will do it immediately as research shows they are five times more likely to get diabetes than the white population.”

But some insurers admit that they have simply been adding conditions because they realise that failure to do so puts them at a disadvantage under Defaqto’s scoring system – which awards providers points for every illness covered. This situation clearly needs to be addressed.

Norwich Union’s Verdin says: “We disagree with the whole concept of adding illnesses just because it gets you a better score on a research tool. We’ve met Defaqto and expressed our concerns and they basically agreed that change needs to take place. They have to produce a scoring system that adds weight to quality of definition.

“It’s the major conditions that consumers really want and we refuse to play games with such an important product. We want to keep it as simple and affordable as possible and we are not going to add illnesses for the sake of it when we don’t feel it will add to customer benefit. Some of the covers provided couldn’t be claimed on because of the way conditions are described and a number of the covers would fit comfortably under TPD.”

Bupa’s diabetes cover comes in for its fair share of criticism as a result of excluding Type 2 diabetes and only covering those diagnosed over the age of 40 for Type 1. Bearing in mind that insulin-dependant diabetes is diagnosed in childhood to such an extent that it is also known as “juvenile diabetes” the chances of claiming on this are slim – even for Asians.

The fact that some insurers cover liver failure or open heart surgery is also sometimes criticised because the former can be covered by major organ transplant and the later by coronary artery bypass grafting or heart valve replacement or repair. Rheumatoid arthritis, chronic respiratory disease and systemic lupus erythematosus can also be covered under TPD.

ALL EYES ON TPD

Whatever the opposition, the conditions race is unlikely to end until the ABI has completed its work on TPD. The results of this will become apparent this June with the release of a consultation paper. The final Statement of Best Practice for CI will then be produced by the end of the year and will be required to be implemented by ABI members by the end of 2010.

The ABI reports that the idea is to get rid of TPD altogether and to replace it with around 14 separate definitions covering those conditions that have tended to give rise to TPD claims. Hopefully insurers will take the opportunity to reappraise their propositions and cut out overlap when they incorporate these into their products, and some commentators predict that the conditions race will largely end at this point as most insurers will decide to include most worthwhile covers.

If this puts an end to the conditions race and to the TPD debate – and the economy also makes a sustainable recovery – then that will leave the subject of severity-based cover as the hot topic. So, in terms of conversation at least, severity-based cover could be destined to be the future of CI.

OTHER COMPANY SPECIFIC NEWS

In July 2008 **Fortis Life** launched a CI product covering 38 conditions plus an unusual form of TPD, available as an optional rider benefit, called Total Disability Benefit. This pays 1% of the CI sum assured – up to the total sum assured – to those who are unable to work for more than six months. The CI policy is also notable for having clearly explained definitions and for having removed age limits from conditions wherever possible · **Bupa**, which reduced prices by around 3% on average in January 2009, introduced a whole raft of changes in April 2009. It has: extended the premium discount concept for exclusions that it already offered for cancer and multiple sclerosis to diabetes and cardiovascular risk; removed age limits altogether on Alzheimer’s disease, Motor Neurone, Parkinson’s disease and dementia; extended age restrictions on waiver of premium and TPD from 65 to 70; introduced two new partial-payment facilities and enabled those suffering critical illnesses overseas to link up with Bupa International so they do not have to be repatriated for diagnosis • **Skandia** also introduced a suite of changes in February 2009. In addition to adding seven new riders to its existing two, it made significant price reductions, added three new conditions, extended two other definitions beyond ABI requirements and added Road To Health, a new online service enabling policyholders to conduct their own health assessment • Cover enhancements made by **AEGON Scottish Equitable** in July 2008 included adding five new illnesses, extending a further three definitions beyond ABI requirements, introducing a helpline to support customers pre and post claim and conducting a marketing campaign and a series of educational workshops to help advisers sell CI in greater numbers. Since March 2009 **Scottish Provident** has also been using its roadshows to promote its Matrix marketing pack, which splits clients or potential clients into broad categories • Others to have featured in the “conditions race” have been **Bright Grey**, which added two new conditions in October 2008 and extended its definitions for three more, **Friends Provident**, which added seven conditions in January 2009, and **progress from Royal Liver**, which – in addition to introducing its nine new conditions last October – extended five more definitions beyond the ABI requirements and removed all exclusions from its children’s cover.

AXA, which still has not declined a single claim for non-disclosure on a policy taken out in conjunction with teleunderwriting, is going to introduce premium reductions where cover exclusions apply “at some point this year”. It is also investing heavily in technology to help cope with the ever-increasing scale of its CI operation.