

The Future of Critical Illness Summit

September 2011



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1.0

Introduction

The challenge

To examine the options for reform of critical illness, reflect on its current position and generate ideas to help increase take-up.

Introduction and background to this paper

Bright Grey and Scottish Provident convened a debate in London in mid September, hosted by Lansons Communications, to examine the future of critical illness. The main aim was to debate the options for reforming the product and the market in a bid to increase coverage and sales across the UK population. Leading up to the debate, proposition director Roger Edwards also led a social media discussion to generate additional ideas and feedback and this work was complemented by a survey of IFA opinion. The project also sought to identify progress made by the industry in terms of regulation, processes and public perception to date and consider what obstacles might be in the way of an improvement in sales.

Rather than simply produce a report we have decided to present the debate in the form of a white paper under several headings, pulling together key observations on the market, and recommendations from the panel and the audience, plus some key quotes to serve as a basis for further discussion.

The debate

The debate brought together five experts to discuss the issues in front of an audience of protection professionals from IFAs, insurers, underwriters, trade bodies and the media.

The panel

Roger Edwards

Proposition Director for Bright Grey and Scottish Provident

Nick Kirwan

Assistant Director of Life and Protection, ABI

Neil McCarthy

Sales and Marketing Director, Direct Life and Pension Services

Jeff Prestridge

Personal Finance Editor, the Financial Mail on Sunday

Melissa Collett

Ombudsman, Financial Ombudsman Service

2.0

A brief history and scene setting

Roger Edwards set the scene by discussing the historical development of critical illness, noting that as far back as 1995, he had been involved in the work to create standard critical illness definitions in a bid to improve the sales and marketing message at a time when definitions and conditions covered varied widely.

Work on these definitions initially by IFA organisations and subsequently taken up by the ABI, was at least partially responsible for the growth in sales which, in general, increased until the early 2000s. However, besides this development, providers began to add more and more conditions which may have been at the cost of increased complexity. Insurers then began to worry about the financial strain that medical advances could put on the product, and in particular on guaranteed rates, which were withdrawn. Although the market stabilised, subsequently the challenge has been the recession and in particular a decline in mortgage-related sales. It was also suggested that CI was suffering in comparison with the much cheaper premiums for life insurance.

Neil McCarthy gave his view that the decline should be set in the context of increasing cost, the complications of the product, and the sales positioning and the process. He said that CI premiums were viewed as costly, even when incorporated with life cover. However he noted that there are now around two and a quarter million policies in force which in many ways could be deemed a success.

Jeff Prestridge worried that CI faced a double whammy of lower sales and, because of the difficult financial situation, cancelled premiums.

An audience member asked what a reasonable level of sales might be, and suggested that re-broking in the 1990s, and then the 'buy now while stocks last' environment for guaranteed rates, may have given a slightly false indication of the natural level of sales. Most of the panel however felt that sales could be higher.

A brief history and scene setting

Key Quotes

“Perhaps life insurance has been reducing in price so much that the choice people make in a recessionary environment is ‘I will go for the very cheap life insurance as opposed to the perceived very expensive critical illness’.”

Roger Edwards

“We are all badgering for a share of the public’s purse, and consumers have a lot of other priorities and they see protection in a much broader spectrum – PMI cover, death cover, covering mortgages, compulsory motor insurance. To a consumer, critical illness is one part. Consumers need to see perceived value in CI.”

Neil McCarthy

“Let me surprise you by saying critical illness is a good financial product that is under-bought. It is so good that I have it myself.”

Jeff Prestridge

3.0

The FOS position

There has been a 12 per cent decline in the number of complaints about CI though Ombudsman Melissa Collett also noted this could also have been due to a fall in the number of policies in force.

Of 500 complaints, around one third had been upheld, so she reasoned 200 people had been unjustly rejected. Complaints around non-disclosure had fallen since the introduction of the ABI code. The threshold for total permanent disability drew the highest number of complaints.

Customers were also still being caught out by the dividing between mild and severe stroke, heart attack and cancer though once again the ABI's focus on this area had improved things. It was also suggested that group critical illness could disappoint where people were excluded from a payout because of a pre existing condition and she suggested this area required better communication.

Nick Kirwan said he believed the ABI's work on non-disclosure had made the product fit for purpose, while Jeff Prestridge claimed credit for the campaign the Financial Mail has done, and acknowledged the work of the FOS and the ABI in this area.

The FOS position

Key Quotes

“The [TPD] complaints rumble on for years, by the time they get to me we get these huge files of doctors’ reports and are upholding a significant number.

“With so called mild heart attacks, cancers and strokes where is the dividing line? Things are better since the ABI came up with detailed headings, but it is still difficult for consumers to understand why their claim hasn’t been paid.”

Melissa Collett

“I am sure this product is fit for purpose and it pays out when expected to.”

Nick Kirwan

“Non-medical disclosure is no longer the blood clot on the landscape partly from pressure by Financial Mail, FOS and some good work by the ABI.”

Jeff Prestridge

“The protection industry is one of those sectors that is constantly seeking to improve, hence this seminar, engaging in dialogue with the Ombudsman, which other sectors don’t do.”

Melissa Collett

4.0

A 'conditions covered' race but are providers trapped by the structure of the market?

Several panellists raised the issue that the industry was undergoing a conditions race and asked how much benefit it was to consumers. It was admitted that an increase in conditions would often be accompanied by an increase in sales, but several panellists warned of customer confusion. The ABI's Nick Kirwan warned that some very uncommon conditions were being added to plans, these would score highly in terms of getting products rated and placed on panels, but it might not justify higher premiums and could mislead consumers as to how much extra coverage was being added in reality. Jeff Prestridge concurred, suggesting a small number of conditions accounted for the vast majority of claims. It was asked if this was keeping prices high.

However Roger Edwards also noted that the survey of advisers suggested they wanted most conditions covered. Nick Kirwan queried how well informed customers were about just how much benefit more conditions brought. However Melissa Collett added one dissenting note saying FOS still saw complaints from those whose rare conditions were not covered.

The audience also suggested that the value of cover for a particular condition was not always explained well. A reinsurer delegate said it was endeavouring to make information about incidence rises more widely available, which might help get across the value of cover for certain conditions.

A 'conditions covered' race but are providers trapped by the structure of the market?

Key Quotes

“I have often thought that this practice of adding conditions was not always the right thing to do, but if you don't have a long list of illnesses you tend to fall down the scores and tend to fall off adviser panels. The competitive pressure is that you add illnesses.”

Roger Edwards

“We need to keep the debate real. Everyone is in favour of more conditions, but there may be some conditions no one has ever paid out on. My worry is that some of the systems are wrong. Independent commentators are adding an extra condition. Say for being struck by a meteorite you get five points. The points allocated need to be proportional to the cover added, because if not, we are in danger of misleading consumers. These things get shown to customers. A customer might think this is worth twice the premium because it is twice as much cover, when it is not”

Nick Kirwan

“We need to get out of this silly ratings game. Simple policies are what we need.”

Jeff Prestridge

5.0

Smaller sums

Several panellists suggested that one way to increase sales was to concentrate on smaller sums assured. Both Roger Edwards and Neil McCarthy suggested this could be the way ahead and advisers in the audience agreed with one saying it had transformed the number of sales he had completed in the last couple of years. It could also ease the burden of underwriting and the need for medical reports.

Key Quotes

“We should reduce cover and get them to cover small amounts.”

Neil McCarthy

“The small amount of cover is possibly the magic bullet - if we can find a way of easily adding £25,000 worth of CI cover to every life policy that’s sold. Maybe we could have a red button to press to add it, without a full GPR report, though pricing would need to reflect that.”

Roger Edwards

6.0

Adapting the process

Neil McCarthy, in particular, suggested that the process of selling CI needed to be adapted to changing consumer behaviour and circumstances. He said the industry can fail to make a link between costs and the event covered – the fact that CI claims are more frequent than a life insurance claim, adding there are living benefits and the death benefits and consumers needed the difference explained to them. He suggested there could be a minimum standard built around the ABI definitions and then you could flex the price around the sum assured. He suggested the industry needed to use different media to reach people at the times of trigger events, such as mortgages, changing jobs, becoming self employed etc.

This view was also backed by several of the IFAs canvassed before the event, who suggested that advisers need to become more proactive in selling stand alone cover.

Key Quotes

“Consumers need to understand what they have bought and understand what the definitions mean.”

Neil McCarthy

7.0

Recasting the definitions

One audience member suggested renaming CI as survivor's benefit because it better reflected the individual nature of the benefit. Most however felt CI was still suitable as a name. However the panel were also challenged to consider whether describing the effect of the conditions more generally might reduce the amount of wording, for instance placing dementia, presenile dementia, CJD and alzheimer's in a more general category, and perhaps doing the same for heart attacks and cancer. There could be 10 or 15 broad headings. Roger Edwards suggested this had been looked at in the past and was worth investigation. However he worried about how this might be scored by rating agencies. Other panellists, both Neil McCarthy and Nick Kirwan worried about whether it could confuse consumers and said the conditions did have to form part of a contract and at a claim stage provide clarity to medical professionals such as oncologists.

Key Quotes

“It is a very interesting concept, deconstructing where we have got to. In the past, we investigated the physical effects of illness and it is a line of inquiry. But we need to be aware of the barriers in place in getting something to market.”

Roger Edwards

“The definitions are not really meant to be for the consumer. They are for dealing with the medical specialist at point of claim. It is very important they are clear about what is covered and what is not. The bit the customer gets is the heading and it is important that the heading gives the right impression and doesn't overpromise and underdeliver and if anything that it does the reverse.”

Nick Kirwan

8.0

GPR impasse

Several advisers suggested that getting GPs to complete and send back GPRs remains a huge problem.

They suggested that perhaps insurers could help by paying for medicals. One audience member suggested using nurses from Medicals Direct and noted that some providers already did this.

However Nick Kirwan urged advisers themselves to make complaints to the British Medical Association, which has agreed that GPs have to provide the information within 28 days, otherwise the BMA would think there was no problem. Roger Edwards suggested that one way around the impasse was for the industry to consider lower sum assured which would not require GPRs.

Key Quotes

“The ABI has an agreement with the BMA. You should report them to the BMA. If they don’t hear about these cases, they will think there is no problem. Sooner or later someone will suffer a critical illness and will not be on risk, because of a doctor’s negligence.”

Nick Kirwan

“Maybe if we developed a product with a lower sum assured maximum, we could create an underwriting process that would remove the need for GP reports but there would be a price for that.”

Roger Edwards

9.0

Media, marketing, message

Much of the discussion centered on how to boost the media coverage and marketing. It was felt that big advertising campaigns including recent TV promotion would definitely boost consumer awareness. Some advisers felt that a lot of attention had to be paid to convincing their peers that the product still had merit.

Jeff Prestridge promised to play a small part and urged the audience to really work on producing case studies to boost the case for CI in his paper and others. But he also suggested it needed marketed to the public without such a strong focus on advisers. He also urged the ABI to move ahead with plans for a protection website. However considering this issue and some of the regulatory restrictions, Nick Kirwan asked should the ABI create its own website or should it concentrate on helping the Money Advice Service improve its protection information. He also noted that it is quite difficult to go beyond generic information. You couldn't start suggesting, for example, a sum assured without straying into advice but he asked for feedback on whether an Amazon style 'people like you did this' approach could help.

Roger Edwards reminded the audience that social media and video was also a cost effective way to get the message to the public.

Key Quotes

“There is no doubt that there is a lack of awareness among consumers about the financial safety net that critical illness provides. That knowledge can be filled in part by financial newspapers.”

Jeff Prestridge

“There still is a great big education, information void.”

Jeff Prestridge

Media, marketing, message

Key Quotes

“I would genuinely like to see enough consumer engagement marketing, either by TV advertising or social media, to raise awareness of both IP and CI. Complexity is an important issue we have to get to grips with.”

Roger Edwards

“We need to do more promotion. Quite a lot of us haven't got pockets as deep as Aviva but we don't all need to be doing TV advertising. Social media might be a buzzword. By social media, I don't just mean Facebook and Twitter. You can produce really good training material and advertising material and you can get it in front of customers quite cost effectively. That is how we rise to Jeff's challenge to get the message out to more people by being a little clever about it. TV advertising works in some areas, but we can be targeted about it in other areas.”

Roger Edwards

10.0

Claims stats

Jeff Prestridge called on the ABI to help name and shame providers not supplying claims information. One adviser in the audience said clients always looked him in the eye to ask will this actually pay out. He said the numbers had to stay around the 93 or 94 per cent level for it to remain a credible product.

Key Quotes

“This information should be published by the ABI on their new protection website. Companies that don’t supply data should be named and shamed. Nick you have got to start snarling like a tiger to get this information disclosed.”

Jeff Prestridge

11.0

Group sales

An audience member asked the panel if group sales were the way ahead particularly given that Nest should bring more people in contact with advisers and financial services. It was noted that there wasn't the pressure on conditions. However Roger Edwards felt that employers probably preferred insurance such as PMI or IP which would benefit both employee and employer. Both Roger Edwards and Neil McCarthy felt that worksite marketing with advice facilitated by the employer might be a better way ahead though perhaps constructed around flexible benefits. Roger Edwards also suggested that a smaller sum assured with a few questions might allow CI to be sold in this way.

12.0

Distribution Dilemma: Part 1 The RDR

There was a discussion about the challenges facing distribution i.e. advisers.

The Retail Distribution Review's impact was difficult to call. Nick Kirwan suggested that it could lead to a rise in protection sales as more advisers moved into the area, which he said would be good, if they were good compliant sales. He suggested a need was there to be met. The audience were divided about whether the embrace of wealth management would see advisers move away from protection or actually see some increase their focus. One adviser was cynical about whether wealth management would actually work at all. He said they might disappear and sell protection but they needed help.

Neil McCarthy suggested that some larger adviser firms, having put their wrap and wealth management strategy in place, were now working out how to improve their protection offering.

He suggested there needed to be a bigger emphasis on training of advisers in protection but members of the audience once again asked why on earth there wasn't a protection exam as part of the process.

Melissa Collett asked why she never saw bank advisers at events such as this.

Distribution Dilemma: Part 1

The RDR

Key Quotes

“Sales are about distribution. I think it is all about advisers. The RDR is potentially an opportunity to increase protection sales as protection will continue to pay commission. Provided they are making good quality sales, there is nothing wrong with that.”

Nick Kirwan

“We are seeing larger adviser organisations having got their wrap sorted, trying to create a protection strategy. But there is a need for training.”

Neil McCarthy

“One consequence of the RDR may be that more advisers move into the protection space. I hope that is the case. I wish there were a thousand Alan Lakeys out there. I can get a thousand advisers to comment on emerging market funds. Try and find a protection specialist to give me a comment on CI, sometimes it feels like I have to smash my head against a wall.”

Jeff Prestridge

13.0

Distribution Dilemma: Part 2 The MMR

The Mortgage Market Review was identified as big threat to CI sales by Nick Kirwan. He said the thrust was to put an obligation to ensure the borrower can really afford the mortgage. The sort of forensic analysis required would put huge pressure on mortgage sales time with one estimate, admittedly a very pessimistic one, of five hours. He asked how much appetite there would be to then spend an hour and a half on protection. It was ironic that the expenditure on protection could then impact on the expenditure that had to be taken into account in the mortgage sale when protection generally led to more resilient borrowing not less. Nick Kirwan suggested one way might be to require due consideration of protection in the MMR.

Key Quotes

“The MMR is less talked about but is a bigger threat. There will be much more prescription and much longer mortgage sales which leaves the question how much appetite will someone have to have an hour and a half’s conversation. If they take out a protection policy they can borrow less but that doesn’t feel right.”

Nick Kirwan

14.0

Conclusion

Some ideas to consider from the conversation between panel and audience:

Create a core and esoteric product.

Explain the value of insuring a condition and the likelihood of being able to claim.

Rename CI as survivor or survival benefit.

Pressurise GPs by reporting them to the BMA. Providers might fund alternative medical assessment or offer smaller amounts of cover with less need for intrusive questions.

More movement required on own occupation numbers with regards to TPD.

Better publicity around incidence rises.

Communicate better with charities for example the Macmillan Cancer Charity.

15.0

Conclusion

Challenges and opportunities:

Consider selling lower sums assured whether as part of a life CI package or separately.

Could employer-enabled worksite marketing rather than pure group schemes increase coverage?

RDR is a mixed bag but MMR is a big threat unless made more pro-protection.

Better use of social media to complement the big TV publicity but case studies very important.

Perhaps a central ABI website or more help given to the Money Advice Service.

Change the processes used by the industry and advisers to combat the reliance on the mortgage sale and promote adviser sales of stand-alone CI.

Consider products using less underwriting though it would come at the cost of higher premiums.

Maintain the improvements on non-disclosure and claims paid statistics. More work on explaining TPD.

Convince advisers to sell more CI and provide training and maybe a qualification.

Consider whether the claims race is worth the price of increased complexity. Could the number of cases be cut without detriment?

Can the way products are rated and placed on panels be changed? Are consumers getting what they pay for in terms of extra conditions covered?



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