



Institute
and Faculty
of Actuaries

Claims guarantees, fact or fiction?

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Agenda

- Introductions
- Guarantees or non-contestability?
- Why consider non-contestability?
- US experience
- Pricing
- An insurer's claims philosophy
- Declining claims
- Policy wordings
- Potential impact of non-contestability
- Conclusion



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Guarantee or non-contestability?

Is a non-contestability clause the same as offering a claims guarantee?

Sort of....but not really

“A provision in a life insurance policy designed to stop life insurance companies from refusing to pay out a claim to individuals because of fraud or error.”

Potential non-contestability wording.....

"Subject to the claim event being met, we will pay all claims after the policy has been in force for x years"

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3

Why consider non-contestability?

- Life company practice
- TCF
- Transparency – regulatory drive
- Consumer confidence (but pensions, endowments, PPI!)
- Claims paid statistics are here to stay
- Alternative underwriting approaches....an opportunity to materially reduce non disclosure?

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4

Claims paid statistics

The latest data published by the ABI shows that in 2013:

UK: Aviva pays over half a billion pounds in protection claims in 2013

17 Mar 2014

- Life insurance and critical illness
- 99.3% of life insurance claims
- 13,600 customers and their families benefited



NEW IN 2013 WE PAID:

- 92.3% of Critical Illness claims - £153 million
- 95.7% of Terminal Illness claims - £89 million
- 98.2% of Life claims - £262 million
- 99.3% of Life insurance claims - £1.41 million

Bright Grey has announced it paid 96% of life claims last year, an increase of 5% on the previous figures.

The average pay out from the Royal London Group protection provider was £92,000, with the 4% rejected for non-disclosure reasons.

Kevin Stevens, head of sales at Bright Grey, said: "Rates are cheaper than they have ever been, but advisers shouldn't let the issue of price cloud their judgement when advising on life insurance."

"The single most important factor clients should be interested in when buying life insurance is whether it will pay out or not. So it makes sense that enormous consideration is given to providers' claims paid statistics."



Insurer Zurich paid out on 94% of its critical illness policy claims last year, up from 90% in 2012, latest statistics show.

It said the firm paid out 806 individual claims in 2013, with more than £65.2m handed over in total. This compared to 744 in 2012 at a value of £59.9m. The largest single claim paid out was for £1m.

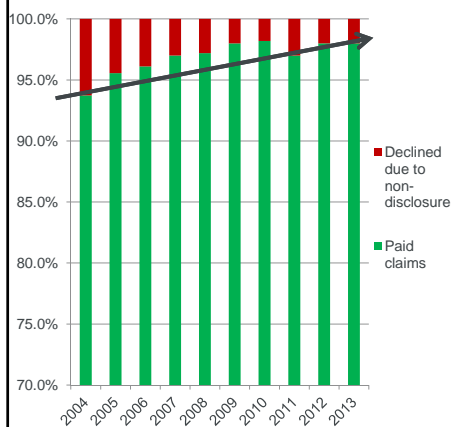
zurich said 4.8% of claims were declined due to the definition of the condition not being met, down from 7.9% in 2012, while 1% were declined because of non-disclosure - the same as for the previous year.

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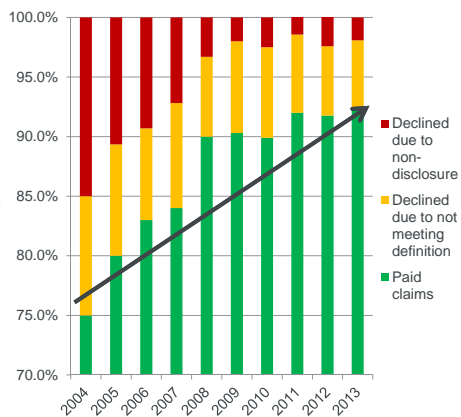
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Claims paid statistics – a tale of two products

Paid claim statistics for Life



Paid claim statistics for Critical Illness



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6

Claims payout league tables

CIExpert
CRITICAL ILLNESS KNOWLEDGE BASE

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CIExpert Affiliate Membership Service
 Compare Critical Illness with Clarity



Adviser Service > [Key Statistics](#)

Adviser Service	<p>We maintain detailed claims statistics for the major insurers to assist in providing advisers clients information based on facts.</p> <ul style="list-style-type: none"> Over the last decade critical illness plans have come under the scrutiny of personal finance journalists alerted by readers whose claims had been rejected. As a consequence there is a common misconception that policies don't pay out. Our ranking system works on the basis of highlighting the likelihood of a claim based upon the incidence rate for each condition. On reviewing the claim statistics you can see that increasingly the overwhelming majority of plans do pay out.
Policy Rankings	
Conditions Database	
Policy Database	
Key Statistics	
Existing Versus New Plan Comparison	

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7

Will higher payout rates increase sales?

- Consumer perceptions...low expectations, mainly due to PPI (for example); no product differentiation for most consumers?
- Historical evidence – increasing % claims paid has not boosted protection sales (nor have reducing premiums & increasing STP rates!)
- Is 100% the only figure that might make a difference?
- For consumers – are concerns about claims not being paid a reason for not buying life cover?

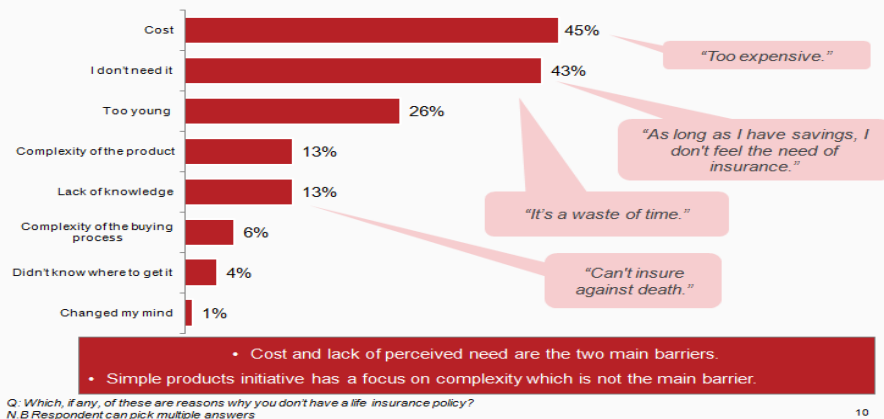
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Are claims paid stats a barrier to sales?

Why don't individuals consider Life insurance?

Munich RE



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9

Non-contestability in the US

- Standard approach....for over 100 years
- Essentially insurers can only contest a claim in first two years
- Impact fully reflected in pricing/experience
- Far more underwriting at outset; more claims investigated (and declined) in first two years
- More fraud
- Have a go mentality

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10

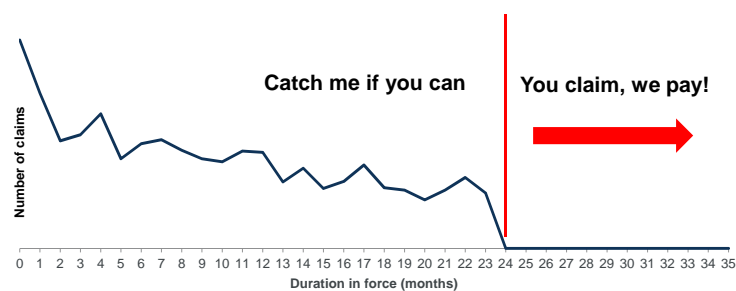
Non-contestability in the US

What do we mean by non-contestability?

“Except for non-payment of premiums, this policy shall be incontestable after it has been in force during the lifetime of the insured, for a period of two years from the issue date.”

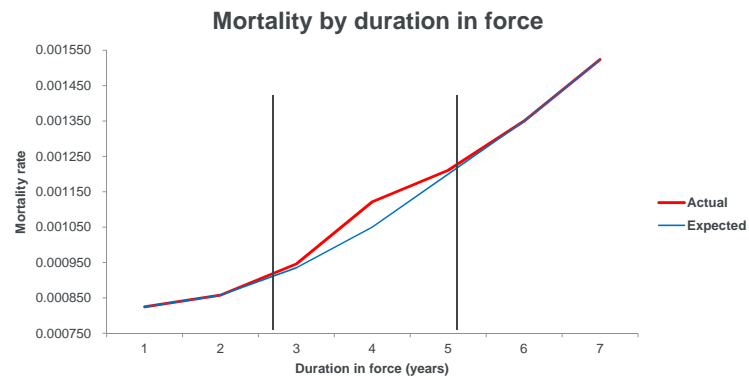
Non-contestability in the US

US rescinded life claims by duration in force



Only exceptional cases will be rescinded/declined for non-disclosure after two years

Mortality impact – two years and beyond



The three to five year 'hump' in mortality is clear

A focus on the contestable period

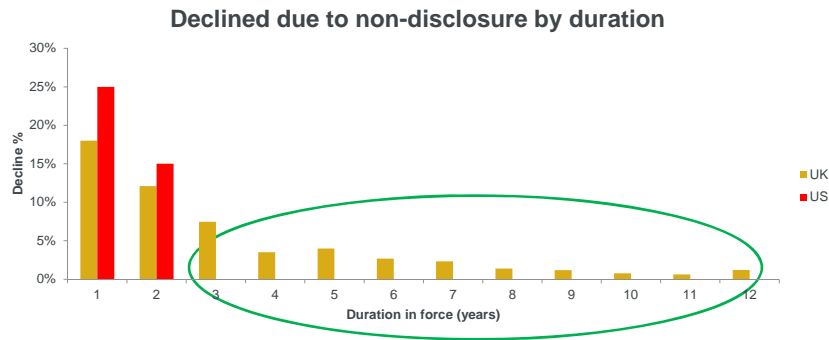
Claim investigations in the US

Typical investigation practices in US to combat non-disclosure (within first two years):

- Medical release and history obtained from next of kin
- All medical records on claims within two years (US does not have centralised records)
- Identifying treating doctors can be problematic (as may be multiple)
- Confirm financial statements routinely
- Investigations can take 90 to 120 days – or longer

A focus on the contestable period

Comparing the US with the UK

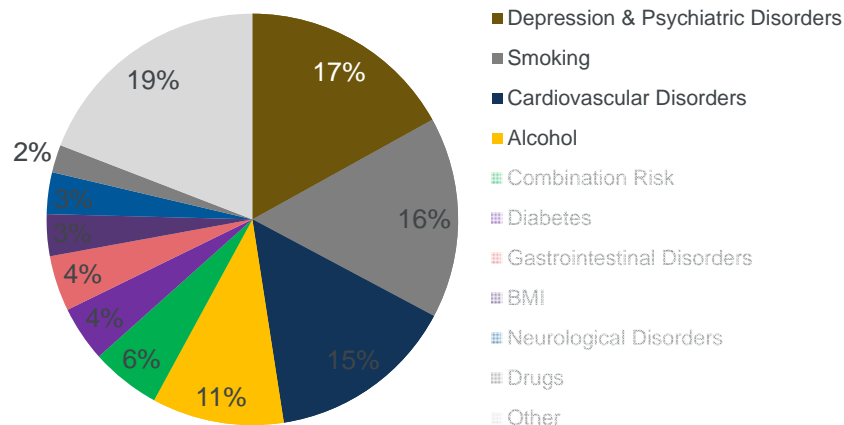


The UK would need to consider the additional claims that would be paid = additional cost

Back to the UK – is Underwriting fit for purpose?

- Non-disclosure studies typically show < 5% applicants materially non-disclose
- But.....our analysis suggests this could give rise to 1 in 7 claims
- What would happen to non-disclosure levels if non contestability was introduced without any change in underwriting practice?
- So, only consider if insurers can more effectively identify material non-disclosure at application stage (e.g. SAR, GPR, tele-interview, blood tests, post issue sampling, other?)

What are individuals non-disclosing at application?



Pricing

- We have plenty of data on claims experience that would enable us to quantify the pure risk cost of not contesting claims after a certain period (e.g. five years)
- This could be less than 1% for life (only) if the non contestable period is five+ years
- If only a limited number of providers offered this, need to consider:
 - Distribution channel
 - Adviser behaviour
 - Consumer behaviour

Pricing (and behavioural change)

How to quantify the risk of behavioural change/anti-selection?

- Common medical conditions e.g. hypertension, overweight
...where survival is a good bet for five years in most cases
- Adverse family histories
...where survival is also likely after five years
- Serious medical histories e.g. heart/kidney transplants, or even terminal medical conditions
...where the applicant may simply 'take a punt'

**Non-contestability will not work
with the *current* UK underwriting process**

So, could we offer non-contestability?

- Life only
- After five years
- Certain distribution channels only?
- Caveats for fraud, max sum assured? (for example)
- Small extra risk cost?
- Use simple language to help consumers understand

"on the death of the policyholder after more than five years, the insurer guarantees to pay the claim in full"

Current claims approach



ABI Code of Practice

Managing Claims For Individual and Group Life, Critical Illness and Income Protection Insurance Products



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21

Current claims approach

- Does non-contestability already exist in the real world of claims anyway?
- We pay claims quickly
- We pay the vast majority already – 99.3% of death claims paid in 2013 at Aviva
- We decline the claims that should be.

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22

What we decline

12.12.08-seen by alcohol abuse nurse,wants to stop,is to be given ref for help.
 12.11.08-overdose of alcohol and fluoxetine whilst drunk,seen by psyche,on thiamine.
 Is drinking 70 upw,admitted to hospital,seen by liason psyche and to be seen by alcohol team.
 6.12.07-review of alcohol dependence,is attending AA.
 31.10.07-drinking 2/3 of bottle of vodka a day,refd to alcohol team.
 19.3.07- overdose of med s and drinking to excess over long period.
 28.2.07-is binge drinking 3 times a week, not working and arguing with his wife.
 18.1.07-depressed,low mood, tried AA but not helped,to try antidepressants and counselling.
 2.6.06-alcohol dependant.
 17.5.06-drinking 5 cans of cider plus vodka everyday.
 7.9.05-alcohol withdrawal at home, to have Librium.
 6.9.05-given details of alcohol abuse services

7 HAVE YOU EVER ASKED FOR OR BEEN GIVEN ADVICE OR TREATMENT TO REDUCE THE AMOUNT YOU DRINK?

NO

8 HOW MANY UNITS OF ALCOHOL DO YOU DRINK IN A TYPICAL WEEK?

0

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23

What we decline

What date did [redacted] consult a doctor with regards the Malignant Melanoma? 15/6/2006

When was the diagnosis made known to the patient? 1/8/2006

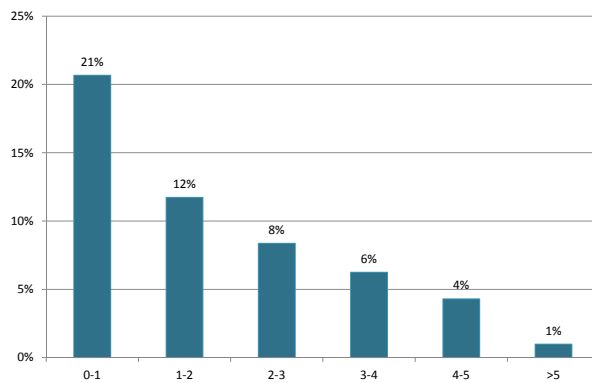
- 13 HAVE YOU BEEN DIAGNOSED WITH, RECEIVED ANY TREATMENT, OR BEEN REFERRED FOR INVESTIGATIONS OR TESTS, FOR:
- CHEST PAIN, HEART ATTACK OR ANY OTHER HEART CONDITION?
 - STROKE OR TRANSIENT ISCHAEMIC ATTACK (TIA, A MINOR FORM OF STROKE)?
 - DIABETES?
 - CANCER, LEUKAEMIA, HODGKIN'S DISEASE, LYMPHOMA OR ANY OTHER FORM OF TUMOUR?
 - PARALYSIS, MULTIPLE SCLEROSIS, BLURRED OR DOUBLE VISION, LOSS OF FEELING, NUMBNESS OR PINS AND NEEDLES SFRIOUS ENOUGH TO HAVE BEEN REPORTED TO A DOCTOR?
 - KIDNEY FAILURE?
- NO

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24

Is there a correct place for “the line”?

% death claims declined by years in force



- Declines drop the longer the policy's in force
- But setting the line anywhere before 5 years would miss a significant amount.

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25

The cost of getting the wording wrong

Any malignant tumour positively diagnosed with histological confirmation and characterised by the uncontrolled growth of malignant cells and invasion of tissue.

The term malignant tumour includes leukaemia, lymphoma and sarcoma. For the above definition the following are not covered:

- All cancers which are histologically classified as any of the following:
 - pre-malignant;
 - non-invasive;
 - cancer in situ;
 - having borderline malignancy; or
 - having low malignant potential.
- All tumours of the prostate unless histologically classified as having a Gleason score greater than 6 or having progressed to at least clinical TNM classification T2N0M0
- Chronic lymphocytic leukaemia unless histologically classified as having progressed to at least Binet Stage A
- Any skin cancer other than malignant melanoma that has been histologically classified as having caused invasion beyond the epidermis (outer layer of skin).

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26

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27

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- All tumours of the prostate unless histologically classified as having a Gleason score greater than 6 or having progressed to at least clinical TNM classification T2N0M0
- Chronic lymphocytic leukaemia unless histologically classified as having progressed to at least Binet Stage A
- **Any skin cancer (including cutaneous lymphoma) other than malignant melanoma** that has been histologically classified as having caused invasion beyond the epidermis (outer layer of skin).

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28

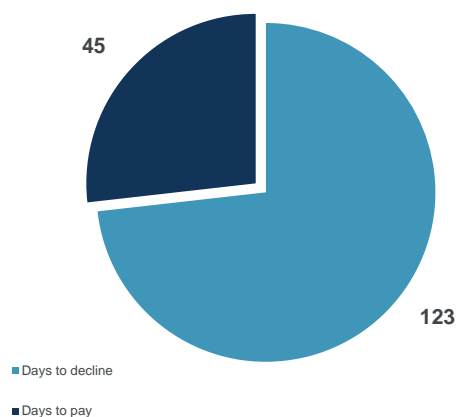
What could N/C mean for claims?

- It could delay valid claims being paid

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29

What could N/C mean for claims?



- Almost 3 times longer to decline a claim in the first 5 years than pay it – all due to the time to investigate

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30

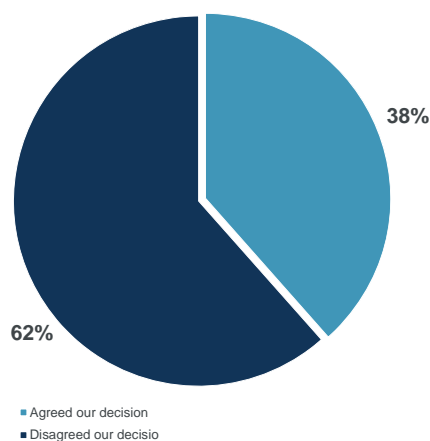
What could N/C mean for claims?

- It could delay valid claims being paid
- Fraud / deliberate misrepresentation gets paid
- It could add extra costs to assess claims
- It goes against the TCF Code and could lead to more customer mistrust than less
- Would our claims % paid rates actually improve?

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31

What would the FOS say...



- The FOS overturn more ND declines than they uphold
- So, would they allow us to more heavily investigate during the N/C period?
- Do we actually want to anyway...

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32

The future challenges for claims

- Would “the line” just keep moving?
- Would this lead to the same approach on TI, CI or IP?
- As this inventively would change consumer behaviour, would we need to up skill our teams in fraud identification?
- Would this actually have the impact we need?
 - misrepresentation v criteria not met

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33

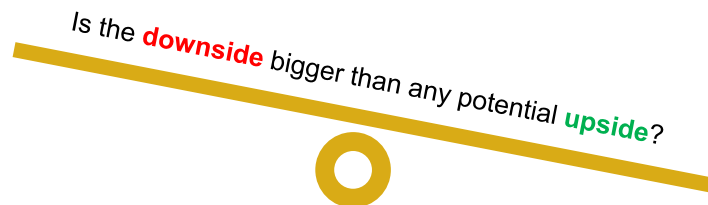
So, is N/C the silver bullet?

- The evidence suggests that consumer confidence isn't going to suddenly change
- There is no indication that this would increase sales
- Claims stats could arguably fall
- Claims could take longer to get paid
- Medicine is getting better each year meaning more people could outlive the N/C period
- We'd start paying fraud / anti-selection
- Our reputation could go backwards.

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34

Implementing non-contestability in the UK- final thoughts



**Once introduced,
there's no going back !**

35

Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

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36