

Health and Care Conference – 2011
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CI - Are we happy following the ABI reviews in recent years?

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Agenda

- Introduction
- Survey results for
 - ABI Review Process
 - TPD
 - Gender Directive
 - Future of CI product

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Introduction

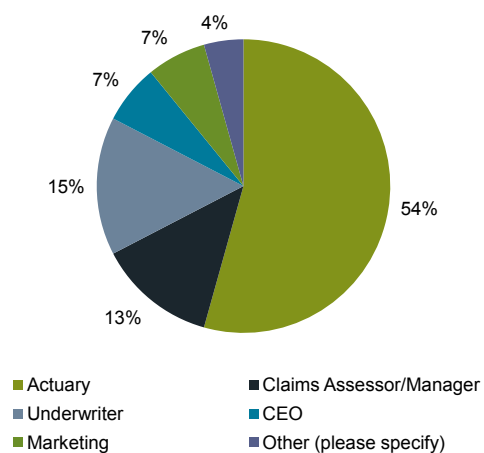
- The aim of our presentation was simple :
 - To canvass the views of a range of industry figures to allow us to gauge opinion on a number of current aspects and challenges of CI product design.

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Who did we ask ?

- Superefficient marketing took on average 7 mins.
- Busy CEOs took on average 11 mins.
- Diligent Underwriters took on average 30 mins.
- Prudent Actuaries took on average 60 mins.
- Claims Assessors??

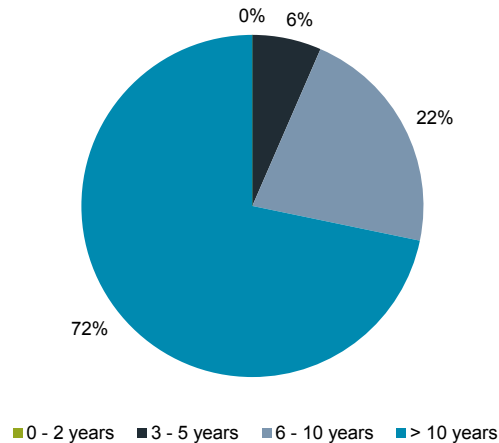


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Level of experience

- Perhaps, not surprisingly, the people we know tend to be the ones that have been working longest



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ABI Statement of Best Practice

- SoBP : Protect customers and help them understand and compare CI policies**
- Common format — Generic Terms — Model Wordings**



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What does the SoBP Practice Achieve?

- The ABI believes the Statement of Best Practice continues to achieve its key aims of helping consumers in 3 important ways:
 - 1. Security** – provides consumers with the safeguard that appropriate minimum standards of cover are used across the industry.
 - 2. Comparability** – makes it easier to compare critical illness (CI) insurance from different insurers.
 - 3. Clarity** – helps improve understanding about what each product does, and does not, cover.

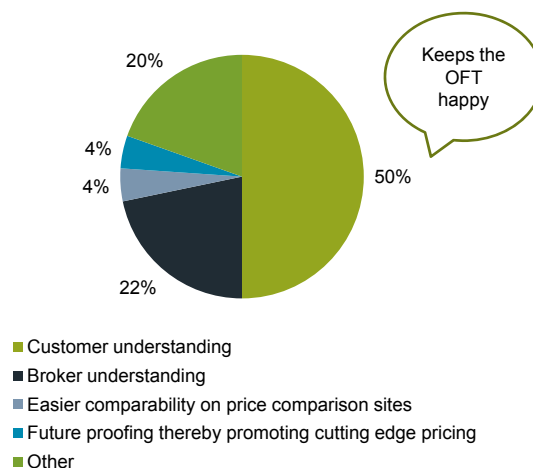
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What is the key advantage of the ABI Statement of Best Practice and the review process?

So the overwhelming majority (3/4) of respondents feel that better understanding is key

Frankly I don't think it aids any of these. It is a dog's breakfast



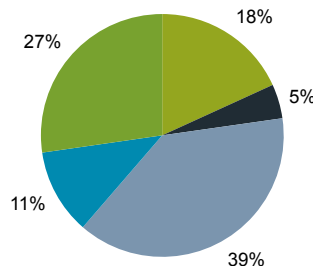
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What is the key disadvantage of the ABI SoBP and the review process?

Key disadvantage is preventing innovation of definitions and product in general

Discourages innovation and takes the industry in the wrong direction



It shores up the mess that we've evolved over the years

- Prevents introduction of severity based products
- Prevents menu based products
- Prevents significant product innovation
- Prevents definition innovation
- Other (please specify)

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Comments on ABI Review Process

Free text comments suggest a mixed picture:

- “Frankly it creates as many problems as it solves.”
- “Seems to be driven by what the ABI want to do rather than what the offices want to do!”
- “... main concern is that it locks in the product to a bit of a straightjacket.”
- “... welcome the ABI reviews & the work they've done ... I really do see major improvements”
- “... advantages far outweigh any disadvantages.”
- “Without standardisation there would be much greater broker and customer confusion on an already confusing product.”

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Total and Permanent Disability

- Early products had a core set of ~6 illnesses:
 - TPD generally included as a sweep-up benefit
 - Intended to catch a range of illnesses, each with severe impact on capabilities and lifestyle.
- Following explosion in conditions covered does TPD still make sense?
- Research in 2009 → TPD claims account for low proportion of CI claims (~3%), but 55% of these are declined.
 - One reason thought to be the lack of clarity around what constituted TPD as no model definition existed.
- Consequently the ABI took the opportunity to address the issue in their most recent review.

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Total and Permanent Disability

- The new SoBP introduces 5 model definitions for TPD, but no name change.
- These are intended to:
 - Improve clarity about what is/isn't covered;
 - Help consumers compare policies.
- Model definitions for: Own Occupation, Suited Occupation, Any Occupation, 3 Specified Work Tasks, Unable to Look after Yourself Ever Again.
- “The new descriptive headings and standard definitions will make the scope of TPD cover much clearer”

Nick Kirwan

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Example Definition – Own Occupation

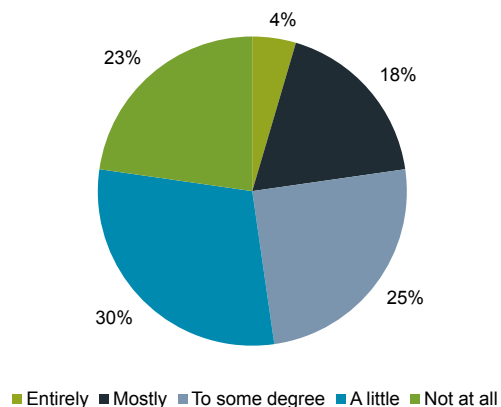
- Loss of the physical or mental ability through an illness or injury [...] to the extent that the insured person is unable to do the **material and substantial** duties of their own occupation ever again. The **material and substantial** duties are those that are normally required for, and/or form part of, the performance of the person's own occupation that cannot reasonably be omitted or modified.
- Own occupation means your trade, profession or type of work you do for profit or pay. It is not a specific job with any particular employer and is irrespective of location and availability.
- The relevant specialists must reasonably expect that the disability will last throughout life with no prospect of improvement, irrespective of when the cover ends or the insured person expects to retire.
- For the above definition, disabilities for which the relevant specialists cannot give a clear prognosis are not covered.

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To what extent do you believe the recent TPD review has achieved your objectives?

The majority of respondents are less than satisfied with the recent review.



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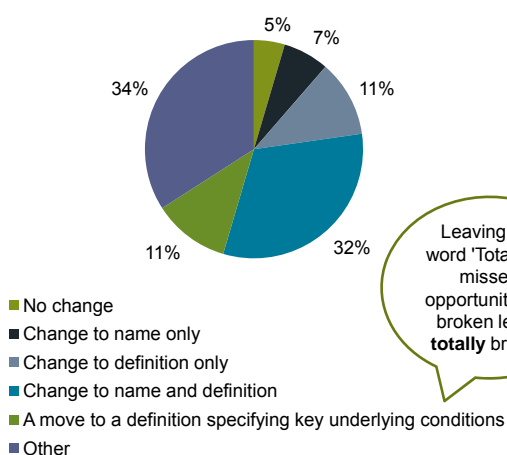
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What would have been your ideal outcome of the TPD review?

Half of respondents wanted a change to name / definition.

Some others wanted TPD to become a standalone product

A recognition that TPD does not provide genuine cover against disability and that more people need IP



Leaving the word 'Total' is a missed opportunity ... A broken leg is **totally** broken

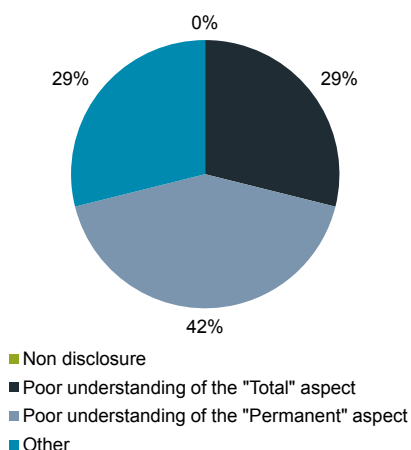
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What do you believe is the main reason for the high decline rate of TPD claims?

So over 80% thought that customers poorly understood Total and / or Permanent

So why did the recent review fail to take the opportunity to address the name of the product ?



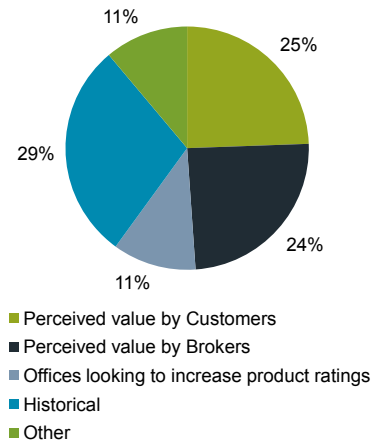
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What do you believe is the main reason for the inclusion of TPD on CI contracts?

The vast majority feel that TPD is added because it is perceived to add value

But would customers feel the same if they knew the 55% decline rates ?



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EU Gender Directive

- Applies to new insurance contracts concluded after 21 December 2007
- Unisex rates required but Member State opt-out allowed
- Opt-out clause: "Where gender is a determining factor in the assessment of risk based on relevant and accurate actuarial and statistical data then proportionate differences in individual premiums or benefits are allowed"
- Action brought in June 2008 by Test-Achats in the Belgian Constitutional Court → referred to ECJ
- ECJ ruling (1st March) : Opt-out is invalid with effect from 21 Dec 2012
- Must use unisex pricing for new policies from 21 Dec 2012.

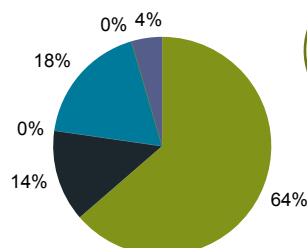
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The Gender Directive - what do you believe is the best solution following the Test Achats ruling ?

So most are accepting the need to provide unisex rates which reflect the likely mix.

I have no further comments that you would be able to publish.



The UK should withdraw from the EU

- Live with it and price using aggregate rates
- Design products that appeal to one sex (but available to both)
- Unchanged products, but heavily marketed towards one sex
- Use of proxy rating factors
- Withdraw from the market
- Other

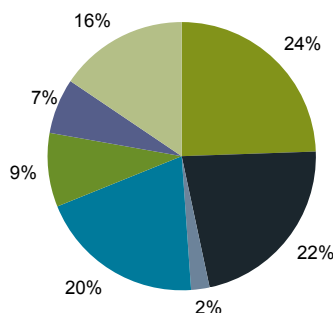
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What is the biggest risk now that the ECJ has upheld the Advocate General's opinion?

No respondents considered **Compliance Costs**, **Lack of Resource** or **Extension of ban to marketing** as the biggest risk.

Resultant structural change in the market, possibly triggered by non EU new entrants.



Extension to all risk-based pricing

- Misestimation of aggregate mix
- Anti-selective lapses
- Increased capital requirements
- Extension of ban to underwriting
- Application to enforce
- Extension to other factors
- Other

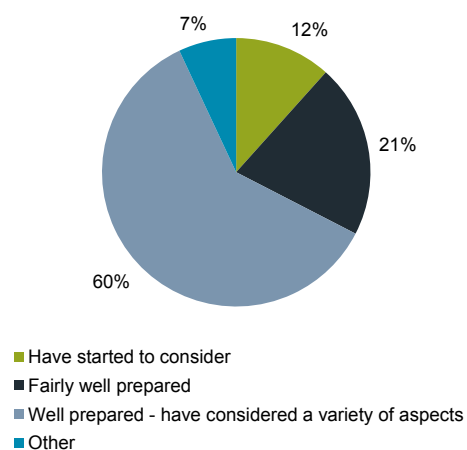
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How prepared are you for the impact of the potential change to the Gender Directive?

It is comforting to see most offices feel that they are well prepared, especially given other pulls on resources – e.g. Solvency II

No-one felt they were not aware of or only had vague awareness of the Gender Directive.



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Future Direction of CI product

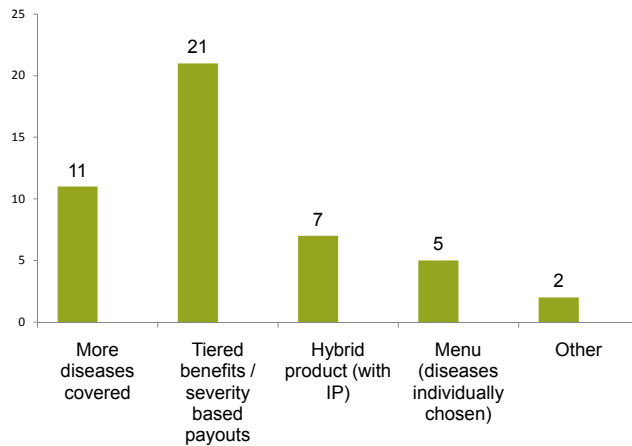
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What do you consider is the **most likely** change to the CI product over the next 5 years?

So people are expecting to see tiered benefits / more diseases

More of the same



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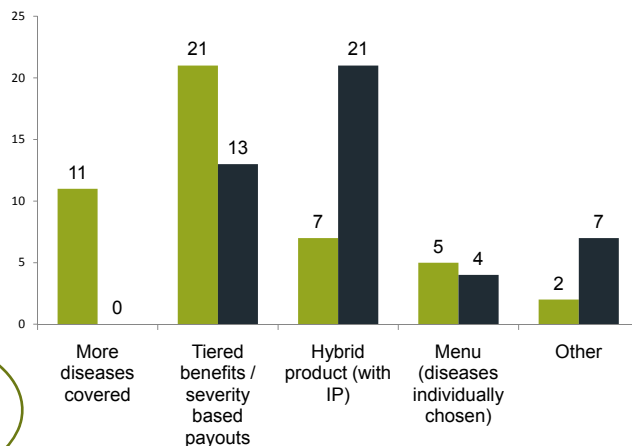
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What do you consider is your **preferred** change to the CI product over the next 5 years?

But would prefer to see hybrid products (eg with IP)

We sold more CI when customers could understand

Go back to basics and look for a more radical and consumer friendly solution.



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Conclusion / Key Messages

- It is recognised that the SoBP aids customer understanding
- However, this has the consequence of inhibiting significant product innovation
- There is general dissatisfaction with the outcome of the TPD review, with most respondents favouring a name change
- There appears to be a good level of preparedness for the Gender Directive, with most concern about misestimation of the aggregate mix and anti-selective lapses.
- Disappointingly there is a clear mismatch between the expected and desired direction of CI over the next 5 years.

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Questions or comments?

- Why are so many unhappy with the ABI review of TPD, given that the ABI is the voice of insurance?
- Are we not active enough as an industry?
- Is there an issue with IFA's reluctance to sell what they don't know?



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