

**The Actuarial Profession**  
making financial sense of the future

Momentum 2010  
Donald MacLean, RGA



**Critical Illness:  
This is Your Life?**

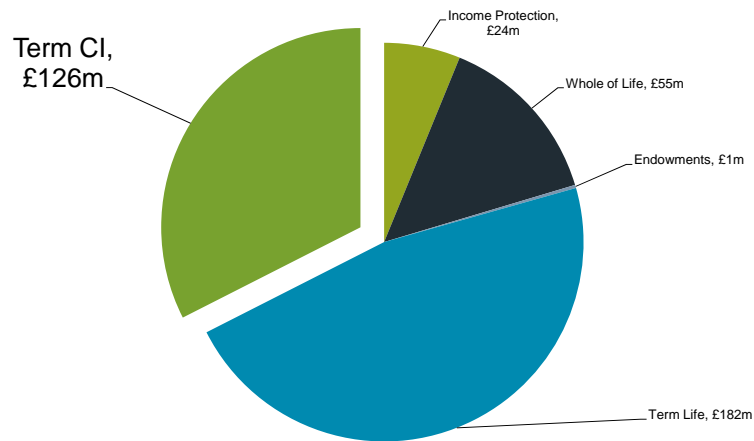
9<sup>th</sup> December 2010

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## Agenda

- The origins of CI (some history...)
- The evolution of product (some more history...)
- Where to go from here?

## Protection Sales H1, 2010



Source: ABI

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## First some questions...

- How many of you work in protection?
- How many of you could describe a CI policy?
- How many of you think having CI cover is a good idea?
- How many of you have CI cover?
- How many of you think CI has a bright future?

“Unlike conventional life assurance and Permanent Health Insurance, Dread Disease covers do not meet any specific need or indemnify the claimant against any loss of earnings or any expenses incurred.”

A.C. Dash & D.L. Grimshaw, Dread Disease Cover – An Actuarial Perspective, 1990.

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## My own question...



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## First some history...

History is a pack of lies about events that never happened told by people who weren't there.  
George Santayana



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## Early CI Products

- Early US/Japanese Products
- South Africa
- Why it worked there...
- “Always a marketing led product”



“Critical to the success of these early products in the United States and South Africa was the marketing of the products in a way that played on people's fears in an insensitive way.”

A.C. Dash & D.L. Grimshaw, Dread Disease Cover – An Actuarial Perspective, 1990.

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## CI Comes to the UK

- Early UK products
- 1985 – Lloyds Life
- 1986 – Cannon Lincoln
- 1987 – Abbey Life



“Abbey Life was the first major player to launch the Living Assurance Plan in 1988. It covered seven definitions and premium rates were a bit of a stab in the dark.”

Simon Hildrey, <http://www.moneymarketing.co.uk/>

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## Dipping the toe in the water

- Original product
  - Initially an acceleration (£25k, max 25% SA)
  - Only non-smokers
  - Reviewable premiums
  - Core diseases only (6/7 conditions)
- Original pricing
  - Heavily reinsurer dependent (M&G Re)
  - Based off South African experience
  - Prior to Dash/Grimshaw

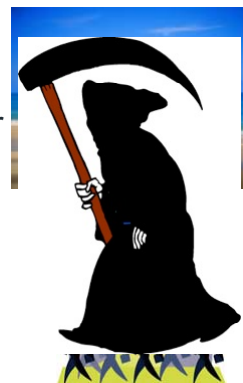


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## Sales & Marketing

- Marketing
  - No scare tactics
  - Don't have to die to get your life cover
  - Instant success – BHF!
- Distribution
  - Direct Sales Force
  - Loved innovation – “something new”



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## Controversial Question (1)



“Could CI launch today?”

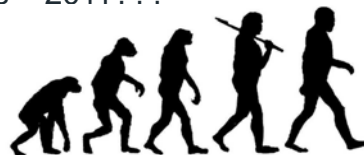
- Regulation
- Reviewability
- Direct Sales Forces
- IT Constraints
- IFA's and Comparability

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## Data here, data there, data everywhere

- The data grows...
- Dash & Grimshaw – “Dread Disease Cover: An Actuarial Perspective” (1990)
- CIBT 93 – “A Critical Review” (2000)
- CIBT 02 – “Exploring the Critical Path” (2006)
- CIIT00 – GenRe Tables (2007)
- First full CMI Graduated Tables – 2011???



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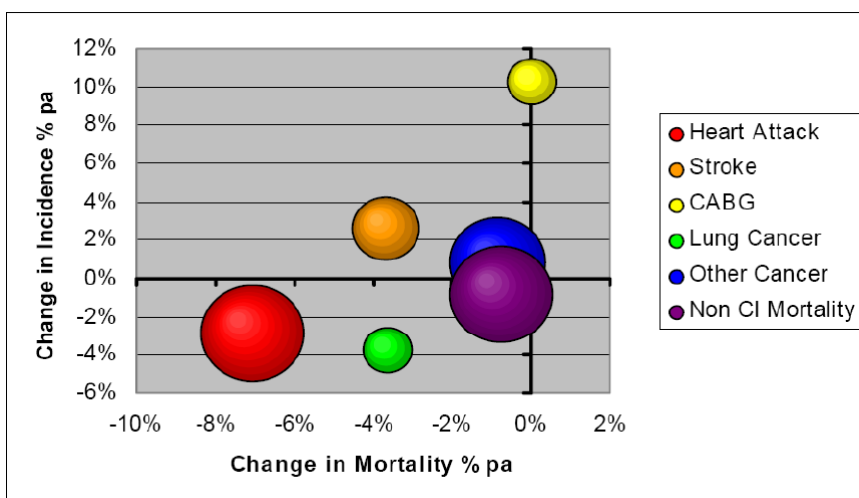
## What about the future?

- Trends, trends, glorious trends...
- Concerned about the future not simply the present
- Population trends
  - Real changes in morbidity (diet, weight etc)
  - Earlier detection
  - Medical definition drift
- Assured trends
  - Particular exposure to weakness in insured definitions
  - Anti-selective lapsation

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## The nitty gritty of trends – short term



Source: Presentation to the 2004 Healthcare Conference by the CI trends Working Party

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## The nitty gritty of trends – long term

- How trends are projected...
  - Sessions with medical experts (key 16 conditions)
  - Level & direction of trends
  - What is driving trends
  - Need long term trends (40 years)
  - Potential “shocks” which might impact trends

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## Distribution drives the product

- Picked up by the IFA community
  - Conditions covered increase
  - Standard ABI definitions – 1999
- Guaranteed premiums begin to dominate
  - Skandia pushed them
- Distribution changes – the death of the DSF
  - Better quality lives?
- Demise of endowment mortgage
  - More need for stand alone protection – CI an easy upsell
  - Role of Bancassurance

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## The original core conditions

- The “core conditions” – 6 initially:
  - Cancer
  - Heart Attack
  - Stroke
  - Coronary Artery Bypass Graft
  - Kidney Failure
  - Major Organ Transplant

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## The other current ABI conditions

- |                                  |                         |
|----------------------------------|-------------------------|
| • Aorta Graft Surgery            | • Loss of speech        |
| • Alzheimer's disease            | • Motor neurone disease |
| • Benign brain tumour            | • Multiple Sclerosis    |
| • Blindness                      | • Paralysis/Paraplegia  |
| • Coma                           | • Parkinson's disease   |
| • Deafness                       | • Terminal Illness      |
| • Heart Valve Replacement/Repair | • Third Degree Burns    |
| • HIV/AIDS                       | • Traumatic Head Injury |
| • Loss of 2 or more limbs        |                         |

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## The catch all?

- Total and Permanent Disability
  - Own Occupation
  - Suited Occupation
  - Any Occupation
  - Activities of Daily Living
  - Loss of independent existence



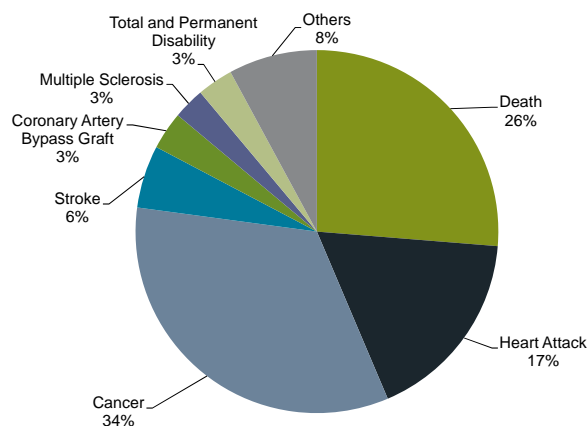
Up to 55 per cent of all TPD claims are refused... I know of people who have claimed for a broken leg. While I may laugh at that, in reality, if it says in the policy that you can not perform your own occupation and the adviser has not explained it fully or the client has not understood it, you can see why the claim goes in.

Alan Lakey, <http://www.moneymarketing.co.uk>

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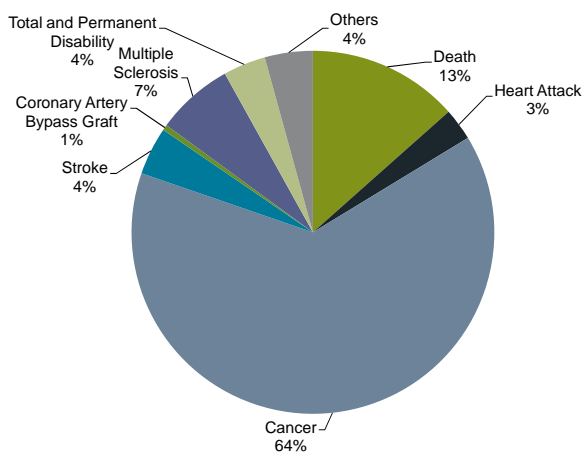
## Claims by Condition, Males



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## Claims by Condition, Females

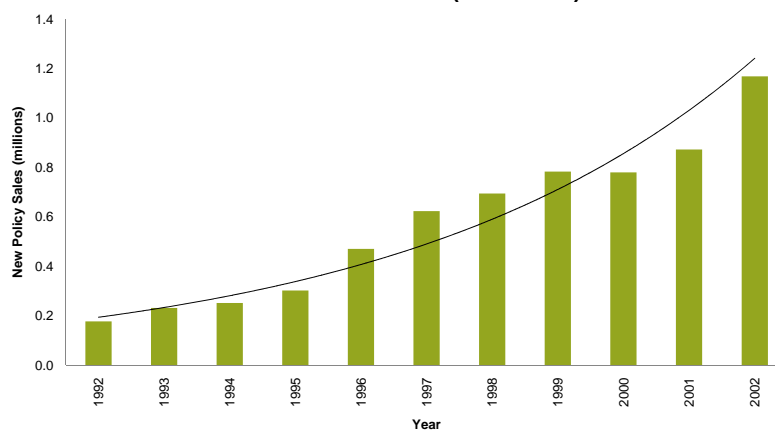


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## Sales Success!

Critical Illness Sales (1992-2002)



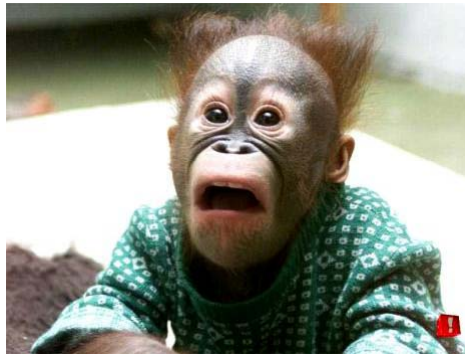
Source: Swiss Re Term and Health Watch, 2001-2003

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## A shock to the system...

- But something happened...
  - In the space of two years guaranteed CI prices went up 60% (2002-2004)



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## What caused the shock?

- Why, I hear you ask...
  - Trends
  - Future proofing – PSA testing & Troponins
  - Capacity
  - Group Think

Reinsurers' concerns regarding medical advances leading to earlier diagnoses of critical illnesses combined with a reduced capacity for long term guarantees have resulted in significant price increases.

Swiss Re Term & Health Watch, 2004



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## The aftermath

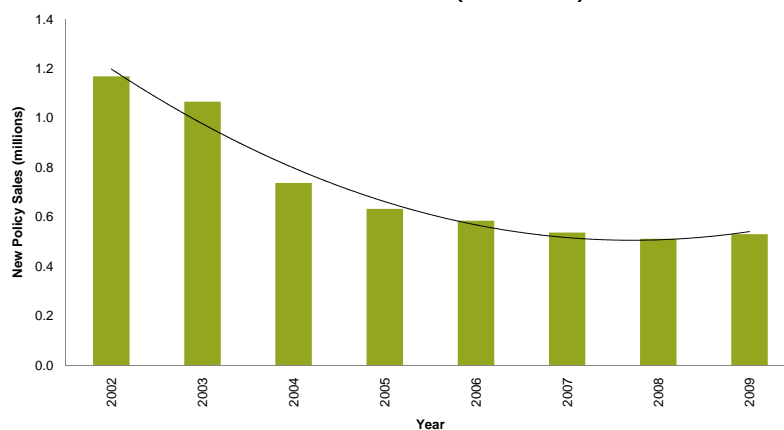
- What happened...
- Reviewable Rates
  - A relationship issue?
  - Industry data – can two actuaries agree?
- Reduced opportunity for churn?

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## Sales slide

Critical Illness Sales (2002-2009)



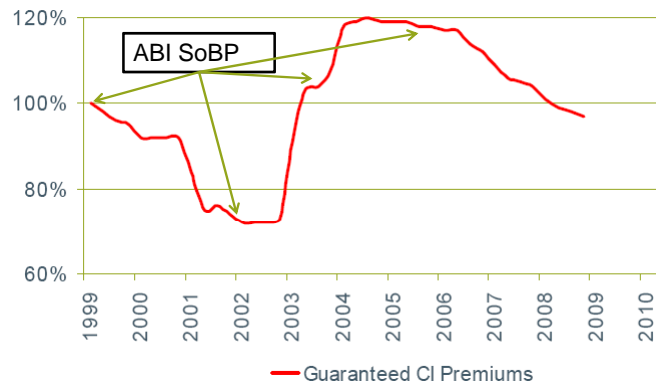
Source: Swiss Re Term and Health Watch, 2001-2009

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## The market falls back

"RGA believe that wholesale guaranteed CI prices are now at similar levels to their position at the end of the 1990's. The picture is clouded by the fact that the products are markedly different now, and some coverage's have been extended, whilst others have become more restrictive, so it is impossible to do a like for like analysis." Mick James, RGA 29/1/10



Source: Enough about Critical Illness Trends (what about a cycle), Philip Bundy and Nathan Hill, Swiss Re, Health and Care 2010

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## Controversial Question (2)



"Is there still a place for reviewable CI?"

- Relationship Issues?
- TCF
- Admin Costs
- Industry Data
- When is a trend not a trend?

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## Claims practices

- Trust evaporated due to claims disputes.

Media attention on rejected CI claims may have reduced enthusiasm for the product...

SwissRe Term & Health Watch 2004

Norwich Union **A widow betrayed by a life insurance company** made on its critical illness policies i

<http://www.thisismoney>

by JULIET IGNATIEV

Last updated at 09:38 20 September 2007

- ABI claims philosophy 2007/2008  
reclaiming by policyholders. The company decided it required a GP report and then began looking for evidence of nondisclosure irrespective of whether it was linked to his death.

This common practice is odious and devastating for the policyholder. In fact, one in five life insurance claims is not met because of this kind of "post-claim underwriting".

Nikolai, Russian by birth, was an internationally acclaimed photojournalist and had seen a great deal of global corruption. He wanted to bring up his children in an honest, moral society with rules by which both corporations and the public abide. He believed Britain was such a society and would have trusted implicitly a big brand insurance company.

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## Claims ratios

### Critical illness claims statistics

**Bright Grey pays 95% of critical illness claims made in the first 6 months of 2010.**

Aviva pays 91% of critical illness claims

**Friends Provident pays over 92% of CI claims**

12 April 2010 | By [Tracey Scott](#)

Print Email Share Comments (2) Save

**Friends Provident paid over 92 per cent of its critical illness claims last year.**

21 April 2010 | By [Aleeza Khan](#)

Print Email Share Comment Save

**Aviva paid out on 91 per cent of all critical illness claims in 2009, up from 90 per cent in 2008.**

**L&G pays over 93% of CI claims**

11 March 2010 | By [Tracey Scott](#)

Print Email Share Comment Save

**Legal & General paid 93.6 per cent of all critical illness claims in 2009, while Aegon paid 88 per cent.**

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## Conditions covered now

- The arms race continues... new conditions abound

	Fortis Life	Aegon Scottish Equitable	Aviva	AXA	Bright Grey	Bupa	Friends Provident	Legal & General	LV=	Progress from Royal Liver	Scottish Provident	Zurich
Total Number of Critical Illnesses covered (including TPD)	40	37	33	38	36	40	36	39	32	40 <sup>a</sup>	35	38
Number of ABI+ definitions	11	5	5	9	4	6	2	11	5	5	7	5
Exclusions – Standard	0	1	3	4	1	1	3	1	0	0	1	2
Exclusions for ABI Conditions	0	1	4	4	1	1	4	1	0	0	1	2
Exclusions for Childrens CI	1	2	4	4	1	2	4	3	5	1	1	2
Exclusions for WOP	0	4	7	6	1	1	2	0	0	2	1	3
Exclusions for TPD	0	2	4	4	1	1	4	1	0	1	1	2

Source: Fortis Life Critical Illness Guide, as at 17 November 2010  
[http://www.fortislife.co.uk/static\\_site/assets/downloads/towers/sales-aids/CI\\_Combined\\_Sales\\_Aid.pdf](http://www.fortislife.co.uk/static_site/assets/downloads/towers/sales-aids/CI_Combined_Sales_Aid.pdf)

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## Controversial Question (3)



“Do we need more conditions?”

- Demand driven?
- Aiding perspicuity?
- Adding value?

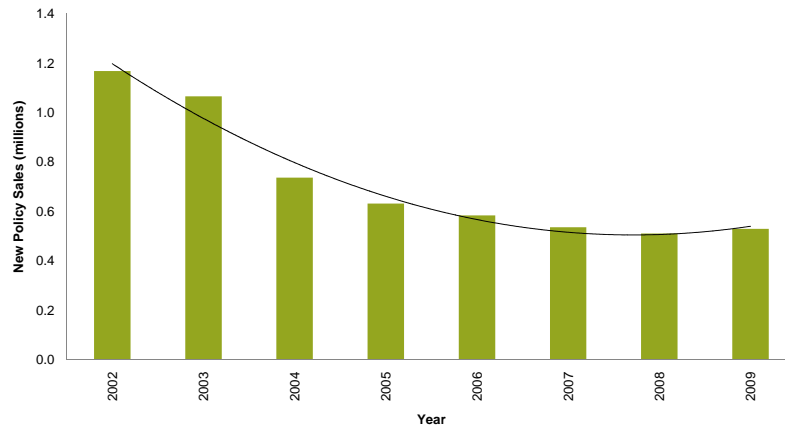
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## Where do we go from here?

Critical Illness Sales (2002-2009)



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## Steady as she goes

- The status quo – add some new conditions
- But these don't add material cover
- If they did it would push the price too high...
- Distribution driven, not demand driven
- If two companies have “five star” ratings from Defacto which do I recommend? The company with 39 or the company with 40 conditions?
- How will the RDR change things?

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## Severity Based CI

- Multipay, severity based CI?
  - PruProtect
  - CI product, 160+ conditions
  - Payouts severity based (six classes)
  - Provides more cover but...
  - Is very complex
  - IFA's need comparability

It is impossible to accurately rate the PruProtect plan because of the partial payments and also because so many of their conditions overlap with each other. A good plan, clearly, but devilishly hard to analyse...

Alan Lakey, <http://www.moneymarketing.co.uk/>

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## Less is more?

- Targeted, disease specific cover
  - Virgin Cancer Cover
  - Was cheaper than a full CI
  - Tiered payout depending on severity of cancer
  - Sold direct to consumer
  - Volumes sold were small and product withdrawn
  - Back to the future?

As an industry, we are **barking mad** to effectively proliferate with this list of so many different CI conditions when we know there are only a few conditions such as heart attack, stroke and cancer that customers should really be worried about. But we have this intermediated model that makes it very difficult for us to step back from that. It is suffocating the industry and innovation as a result.

Dennis Smith, <http://www.moneymarketing.co.uk> (emphasis added)

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## Hybrid Products

The FSA is concerned that for years people have been sold critical-illness cover because it is an easier sale and advisers perceive it to pay more commission when IP was the more appropriate product

Peter Le Beau, <http://www.moneymarketing.co.uk>

- Lump sum more attractive?
- More customer friendly claims process?
- Fortis Real Life?
  - Hybrid life, CI, IP
  - But sales have been slow ... comparability!

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## My own question...



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## Questions or comments?

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

