

## Consumer Issues in Critical Illness

David Keeler  
7 December 2005

---

---

---

---

---

---

---

---

### Critical Illness – product innovation

**Introduced into UK from South Africa and became very popular:**

- Sales of more than 1 million policies in 2002
- Reassurers supported early pioneers
- Significant variation in policy terms

---

---

---

---

---

---

---

---

### Prices stopped falling

**The market changed dramatically in 2001:**

- Claims higher than expected
- Reassurance capacity reduced
- Start of higher prices
- Fewer offering guaranteed rates

---

---

---

---

---

---

---

---

## What does the consumer want?

Relatively simple to outline:

- Affordable price
- Claims paid promptly on diagnosis
- No surprises

The Act of Parliament  
Making Them of Sense of the Future

---

---

---

---

---

---

---

## Reviewable premium rates

- It is unlikely that either the consumer or the manufacturer anticipated the financial significance of this feature of certain critical illness products

The Act of Parliament  
Making Them of Sense of the Future

---

---

---

---

---

---

---

## FOS on reviewable rates



The Act of Parliament  
Making Them of Sense of the Future

---

---

---

---

---

---

---

## FOS on reviewable rates

- Would the consumer, if properly advised, have entered the contract
- Can the reasons for review and the risks they carry be understood by the consumer

The Act of 2015  
Making Financial Services Fairer

## FSA on reviewable rates



FSA does not object to reviewable rates, but.....

Need valid reason

Concern about possible detriment at review

The Act of 2015  
Making Financial Services Fairer

## Valid reason to review?

The FSA do not believe the following are:

- recouping past investment losses
- increasing profitability margins
- unfairly target a group of policyholders
- original pricing was not carefully considered
- original pricing was deliberately optimistic
- reassurer increases prices

The Act of 2015  
Making Financial Services Fairer

### The consumer would expect.....

- No review needed on original assumptions
- No special treatment
- Strong verifiable evidence
- No increase in profitability at review

The Accreted Producers  
Making Their Difference in the World

---

---

---

---

---

---

---

### The consumer would expect.....

- No review needed on original assumptions
- No special treatment
- Strong verifiable evidence
- No increase in profitability at review
- To have a choice at review
- To have been treated fairly

The Accreted Producers  
Making Their Difference in the World

---

---

---

---

---

---

---

### What is the consumer offered?

**How does the firm articulate the deal it makes with its customer?**

- At outset
- At review

The Accreted Producers  
Making Their Difference in the World

---

---

---

---

---

---

---

## What comes next.....

- "Swiss Re buyout triggers fears on gtd rates"
- IFAs want choice – not just reviewable rates
- TCF initiative covers product design
- Reviewable definitions

The Actuarial Profession  
making financial sense of the future

## Summary of consumer issues

- Product is not simple
- Too many claims are disallowed
- Guaranteed or not guaranteed rates
- How to avoid detriment at review
- How to introduce reviewable definitions

The Actuarial Profession  
making financial sense of the future

The Actuarial Profession  
making financial sense of the future

## Consumer Issues in Critical Illness

David.Keeler@towersperrin.com