

Institute of Actuaries

Critical Illness Product Evolution - What needs to change and why?

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a division of Royal London

**What consumer
need is critical
illness cover
meeting?**

What consumer need is critical illness meeting?

Lifestyle adjustment?

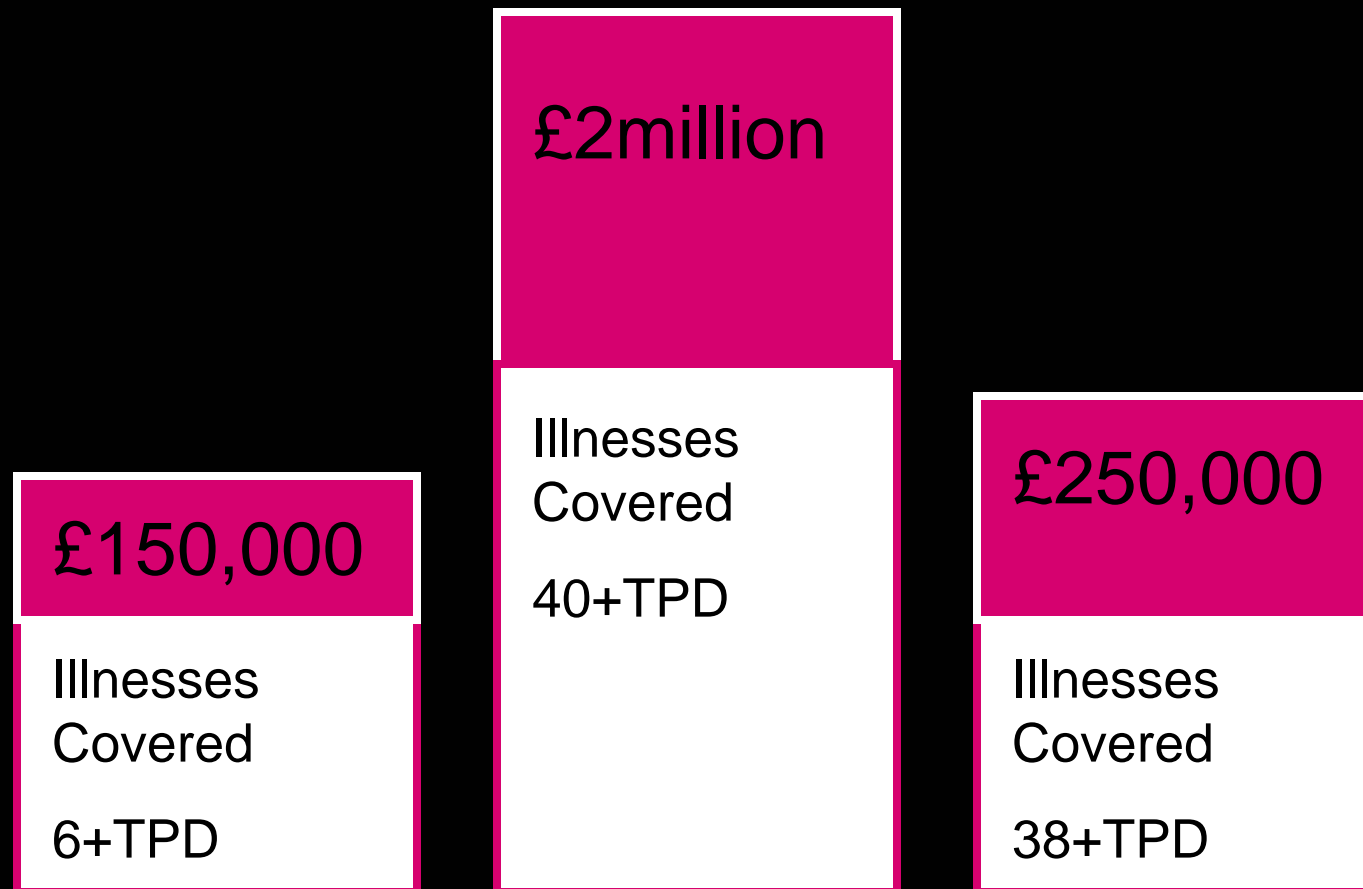
Income replacement?

Debt repayment?

Compensation for life changing events?

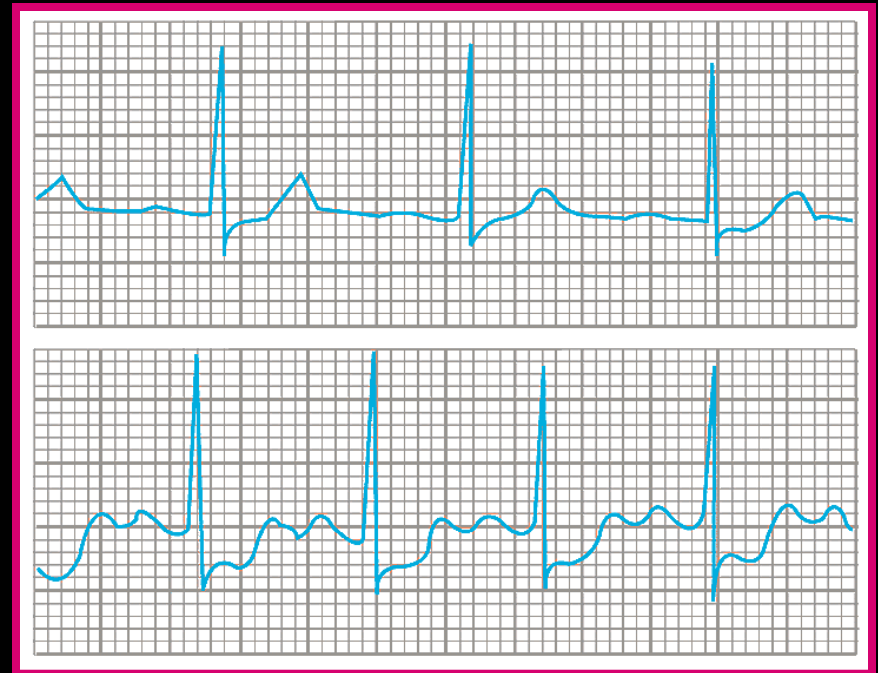
Mortgage repayment?

History of critical illness cover



Medical advancements

- Earlier detection
- Better treatments
- Keyhole instead of open surgery
- Day surgery – back at work within a week
- Cures



Medical advancements – what's happened

- Removing illnesses
 - Angioplasty
- Tightening definitions
 - Prostate cancer exclusion - ABI

Cancer definition - ABI

- Any malignant tumour characterised by the uncontrolled growth and spread of malignant cells and invasion of tissue. The term cancer includes leukaemia and Hodgkin's disease, but the following are excluded:
 - All tumours which are histologically described as pre-malignant, as non-invasive or as cancer-in-situ
 - Any skin cancer other than invasive malignant melanoma
 - All forms of lymphoma in the presence of any Human Immunodeficiency Virus
 - Kaposi's Sarcoma in the presence of Human Immunodeficiency Virus

Prostate cancer definition - ABI

- Any malignant tumour characterised by the uncontrolled growth and spread of malignant cells and invasion of tissue. The term cancer includes leukaemia and Hodgkin's disease, but the following are excluded:
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 - All forms of lymphoma in the presence of any Human Immunodeficiency Virus
 - Kaposi's Sarcoma in the presence of Human Immunodeficiency Virus
 - All tumours of the prostate unless histologically classified as having a Gleason score greater than 6 or having progressed to at least TNM classification T2N0M0

Medical advancements – where things might go

- ABI
 - Bowel cancer
 - Liver cancer
- Definition creep
 - Addition of left ventricular ejection fraction to the Heart Attack Definition

Tighter definitions?

IFAs say tighter CI definitions better than losing guarantee

By Sonia Speedy

IFAs would rather see definitions on guaranteed critical-illness policies continually tightened than lose them altogether, according to research by Legal & General. L&G's survey of 400 IFAs found that new-generation CI cover products should be based on today's model rather than "radical" new designs. Fifty-seven per cent of the IFAs offer only guaranteed premiums to clients while 42 per cent offer both guaranteed and reviewable rates.

Source: Money Marketing 29th January 2004

Tighter definitions

Critical illness is easy to understand

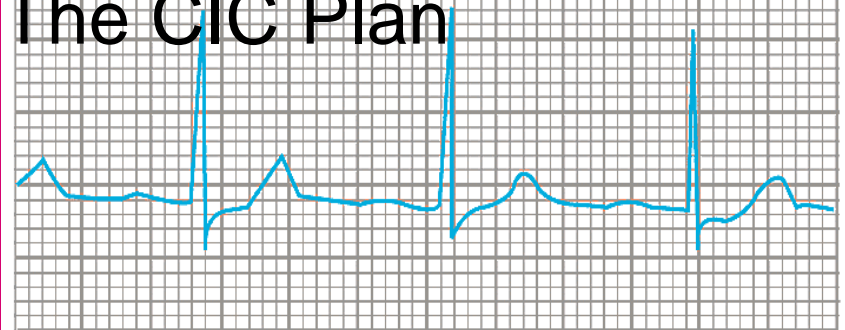
“If you get one of the illnesses on the list you get a stack of cash”

“If you get one of the illnesses on the list *and it meets a quite complex medical definition then* you get a stack of cash”

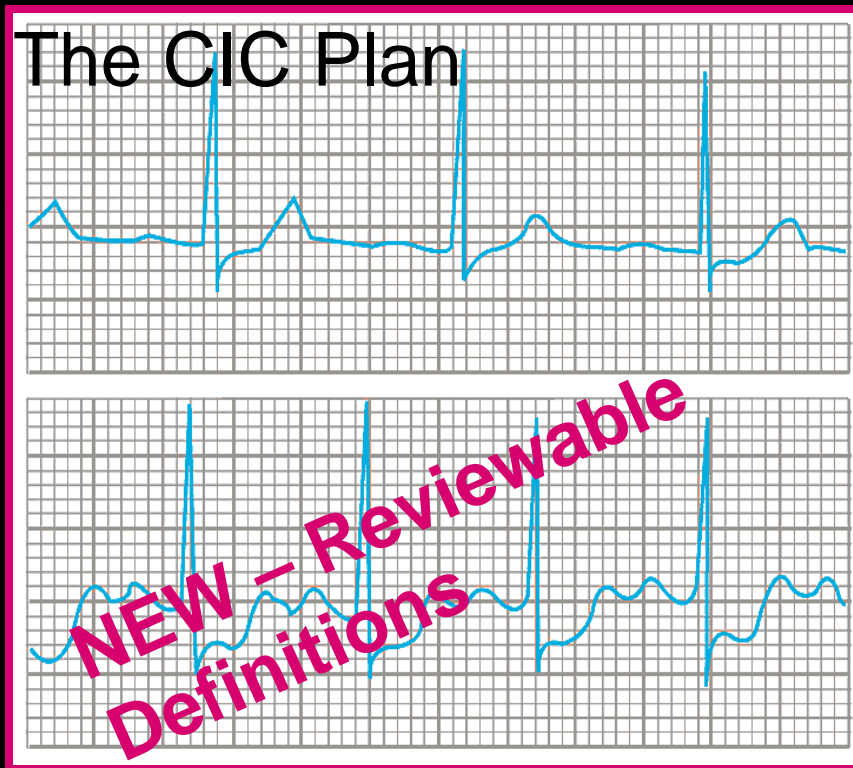
Evolution – Reviewable rates

- Not like Flexible whole of life
- Increases only if expectations not met
- Will increases be acceptable?
- FOS latest position

The CIC Plan



Evolution – Reviewable definitions

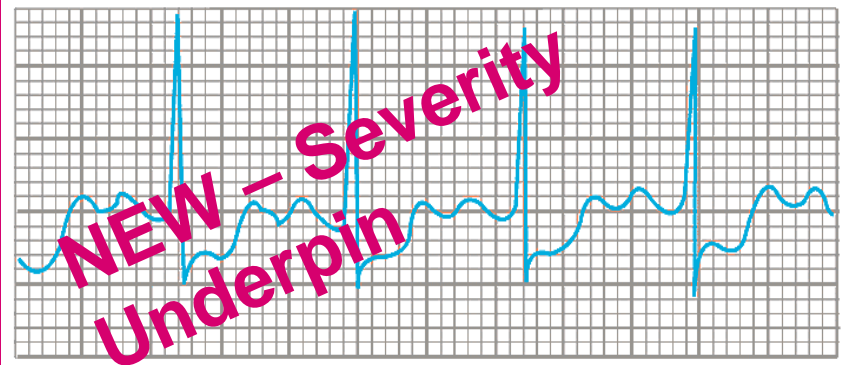
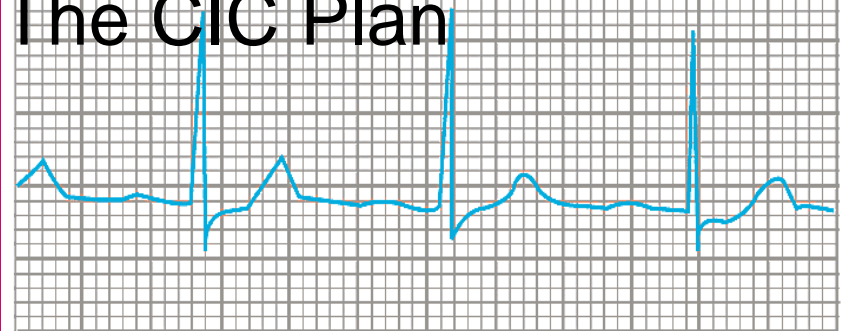


- The public don't trust our existing small print
- Now we expect them to accept variable small print?
- Could only work with independent body who agrees when something can be changed

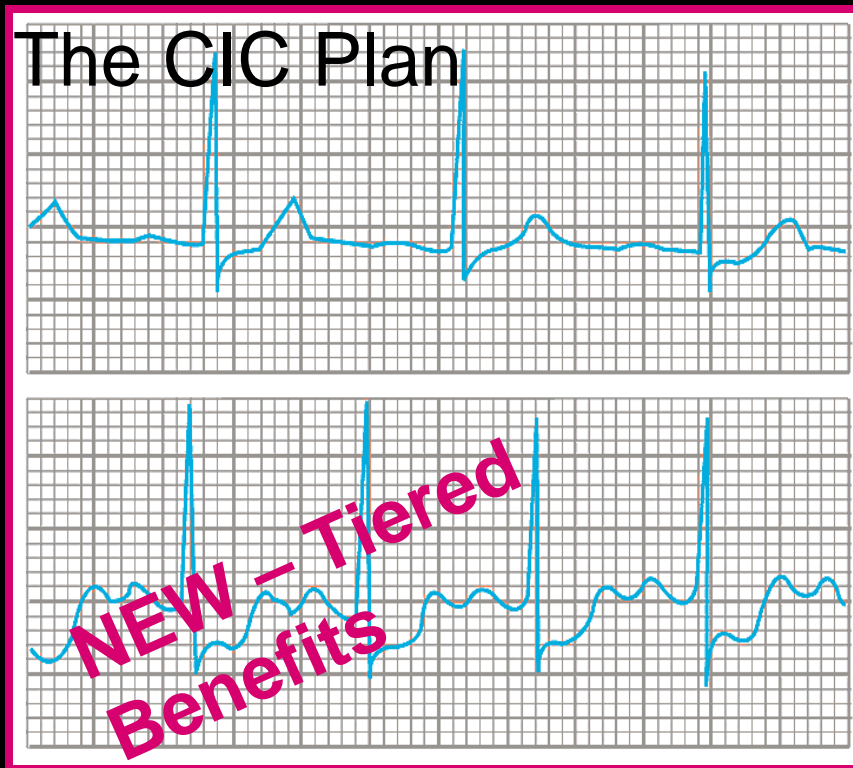
Evolution – Severity underpin

- Retains existing problems at an individual definition level
- Expectations – “I’ve still got cancer”
- More small print to explain

The CIC Plan

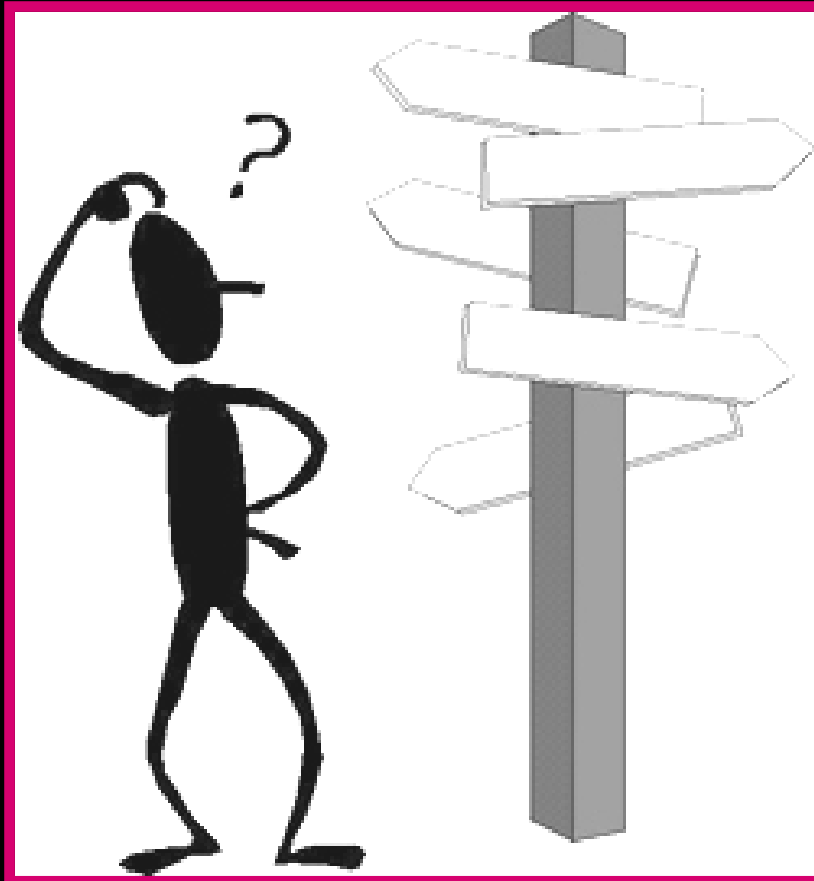


Evolution – Tiered benefits



- Split between severe and mild illnesses
- More complex medical definitions
- More to explain
- Chance of making the wrong decision

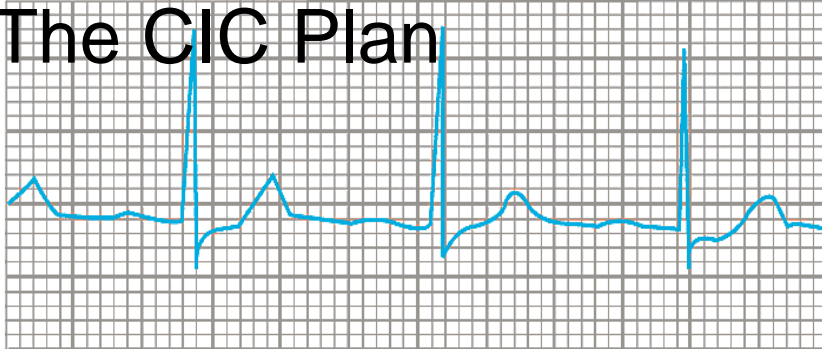
Challenges



- More complexity
- More explanation required
- More small print
- More declined claims

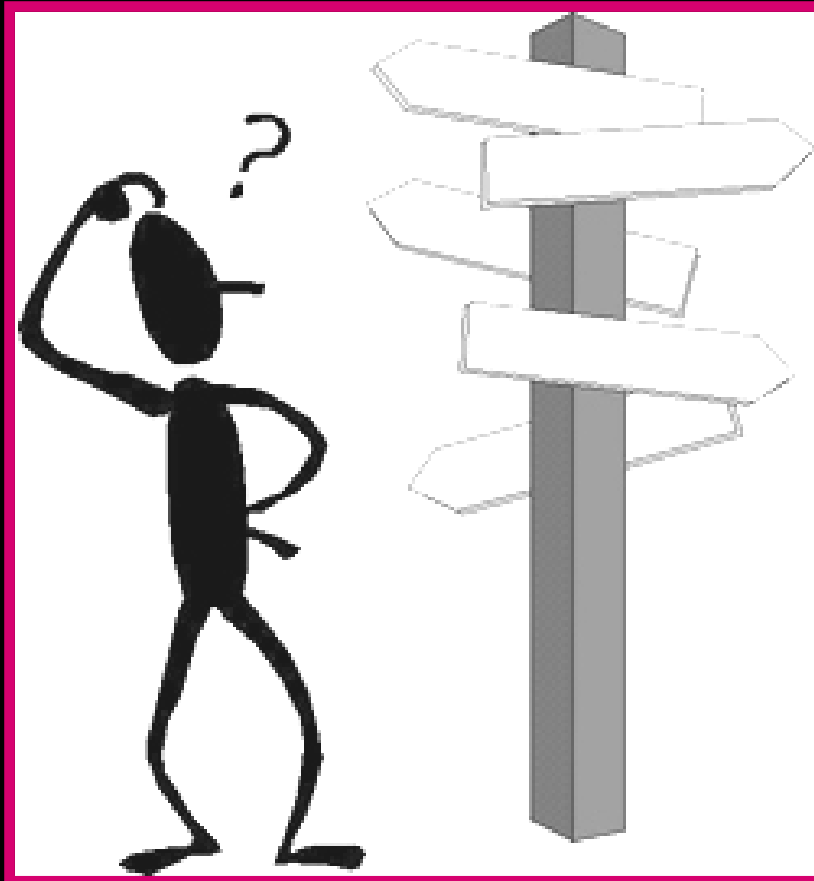
Revolution – Impact based definitions

The CIC Plan



- Like ADLs
- Very different
- Could outlast medical inflation
- Very difficult to develop
- Maybe too different?

Challenges



- Challenge of launching something completely different through current distribution channels
- Fear of litigation
- Couldn't call it Critical Illness
- Which panel would it go on?
- Where would it go on portals

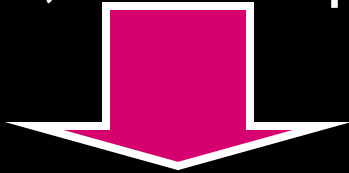
Summary – effect on current products

The critical illness plan

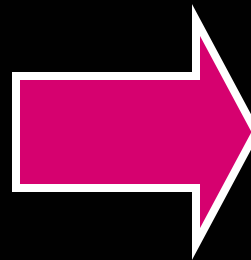
- Higher prices
- Tighter definitions
- Reverse illness race
- Introduce age limit - 65?
- Restrictions on GIO
- Introduce limit - £250k?

Is critical illness enough?

£250,000 lump sum



Income generator



£30,300pa for 10yrs

£22,100pa for 15yrs

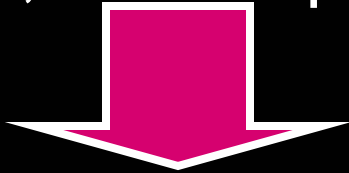
£18,100pa for 20yrs

£15,700pa for 25yrs

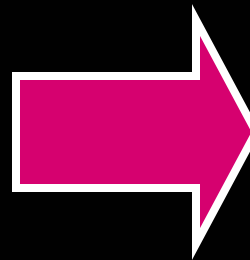
Source – Bright Grey, March 2004. Level income based on an investment return of 4.04% per annum net of tax.

Is critical illness enough?

£74,000 lump sum



Income generator



£9,000pa for 10yrs

£6,500pa for 15yrs

£5,300pa for 20 yrs

£4,600pa for 25yrs

Source – Bright Grey, March 2004. Level income based on an investment return of 4.04% per annum net of tax.

**Whatever happens
to CI – people
need more Income
Protection**

Personal income protection gap

**Critical illness
cover £250,000**

Mortgage £160,000

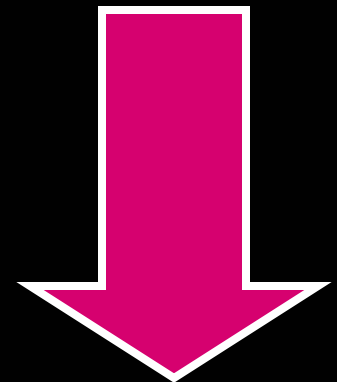
**£90,000
left**

**£19,400
shortfall (55%)**

Salary £35,000

**£5,600pa
for 25 yrs**

Income generator



Changes

- Higher prices
- Tighter definitions
- Introduce age limit - 65?
- Restrictions on GIO
- Introduce limit
 - £500k
 - £250k

Personal income protection gap

Critical illness
cover £250,000

Mortgage £160,000

£90,000
left

£19,400
shortfall (55%)

Salary £35,000

£5,600pa
for 25 yrs

Income generator

