

Re-defining the Critical Illness Model

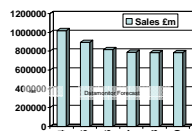
John Perks
Director of Protection
Prudential

What Pru felt needed to be addressed

- State of the Market
- Non-payments issue / Declining consumer confidence
- The Critical Illness model / "all or nothing" approach to payment
- TPD
- Our early results and feedback

Protection sales and confidence in decline?

- Quarterly protection sales in Q2 2006 have declined by some 20% from the peak in Q3 03
Source: Morgan Stanley, Revisiting Competition in the UK Life Market, Aug 2005
- Housing market expected to stabilise or grow very slowly - over 50% of current protection sales are mortgage related
Source: Money Marketing, 16/06/05
- Confusion for the consumer over what is actually covered & negative publicity on declined claims
Increasing number of such articles appearing in the press, leading to a decrease in consumer confidence and a lack of trust towards insurers
- Rate cuts are stifling longer term growth
Pricing activity is generally about short term volume
- Impact of new regulatory regime and treating customers fairly
Rising premiums?
- Stagnant development in Intermediary market



Source: UK Term Assurance 2005

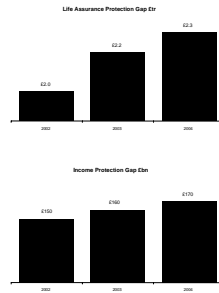
Need for protection has never been greater

- There is a gap of £2.3 trillion in life insurance
- There is a gap of £300 billion in critical illness insurance
- There is a gap of £160 billion in income protection

Source: SwissRe, *A Gap in Perception*, 2004 - updated SwissRe, *Protection at any price*, Nov 2005

- Excess of 40% of consumers believe they hold income protection cover. Industry data suggests that the figure is actually closer to 15%

Source: SwissRe, *Term and Health Watch*, 2006



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Are we offering products with consumer appeal?

- People are confused about the cover they have bought and what the cover does
- They believed that the plan would cover them if their illness meant they couldn't work
- Consumers are also concerned that they have no cover in place once a claim is made.
- Many felt that there were gaps in their cover
- Some felt angry about what they had been sold and whether it was fit for purpose
- Many wanted a plan that would cover them for all serious conditions not just the life threatening ones
- They wanted something that paid them for the disruption in their life

In reality we have created products that create uncertainty

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Industry suffering further negative press on claims?

- Negative press coverage is perpetuating the lack of trust toward insurance
- Consumers believe that we deliberately use small print to avoid paying out
- Many customers believe that this insurance is no more than a lottery
- "How could it be the wrong type of heart attack?"
- We must not forget all the claims we have paid and the difference they have made to people's lives
- Equally we must not lose sight of the fact that where we do not pay a claim on the grounds of not meeting the definition we may be adding insult to injury

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Assessment of claims in need of an overhaul?

- We need to move away from the subjective way in which we assess many claims
- The occupational element to our plans is causing confusion
- The subjective nature of many of the claims could ultimately force a change in product design or a change in pricing
- Despite standardisation there is still inconsistency in settling claims
- There has been a hardening in stance on non payment of claims
- The current model may not be sustainable from a customer viewpoint

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Remodelling Critical Illness

- Has industry been stifled by ABI Statement of Best Practice?
- Too many claims are being turned down in relation to expectations set
- Confidence in product is low
- What about future advances in the diagnosis of medical conditions?
- Sales are slowing down
- The current product is an "all or nothing" approach to payment of claims

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The Overseas experience

- Model has been redefined in South Africa
- Now predominantly based on a severity based approach to claims
- A much more objective set of claims criteria, reducing the potential for complaint
- Matching consumer expectation of the product with what is actually covered

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How should Severity work?

- Pays out depending on how severe the condition is and should be **designed to reflect of the general expected impact on an individuals life**
 - The more severe - the higher the payment
 - The most severe qualifying for a 100% payment
 - Allows for a wider range of and more appropriate cover
 - Additional payments as illness progresses or for different illnesses
- Allows for a **wider range of cover**
 - 13 claimable areas of the body
 - 140+ listed conditions
 - 190 severity listings
- This means the client is more likely to get a **payment and more likely to be at an earlier stage of an illness or disability** when intervention is more effective

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ABI Definition: Eye benefit: **Permanent and irreversible** loss of sight to the extent that even when tested with the use of visual aids, vision is measured at 3/60 or worse in the better eye using a Snellen eye chart

SEVERITY A	100%	Blindness
SEVERITY B	75%	Severe Visual Impairment
SEVERITY C	50%	Significant Visual Impairment
SEVERITY D	25%	Central Blindness
SEVERITY E	15%	Blindness in one Eye / Tunnel Vision
SEVERITY F	10%	Surgical Removal of one Eye Surgical Repair of a Detached Retina

Actual definitions abbreviated for presentational purposes

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Why is the new product fairer?

- Significantly wider range of defined medical conditions and procedures covered in plans
 - With **clear, precise, objective severity** measurements
 - Some conditions alternatively assess on FATs - objective subjectivity!
 - Clearly defined medical conditions as recognised by the BMA
 - Designed to fit within the medical profession's own understanding of expected illness recovery times or progression
- Providers should look to work with leading medical experts in the UK to determine the severity of the condition and the expected financial impact
- Providers should consider the **CLAIM in conjunction with the treating specialist** - making decision easier to arrive at in a clearer way
- Is a simple concept really that complex?

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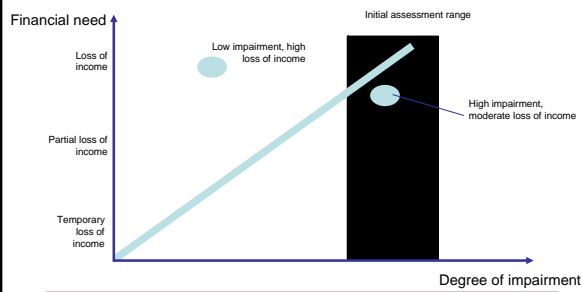
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Totally and Permanently Disabled?

- Is it an appropriate "catch all"?
- 1 in 2 claims currently turned down, majority of complaints linked to TPD
- The all or nothing approach to payment of claim is fundamentally unfair
- There is an over reliance on the use of occupation
- It is difficult to determine the long term diagnosis for many cases
- Events that will have a dramatic effect on people's lives are not catered for
- Consumer and IFA confidence is at an all time low for this benefit
- No standard definition

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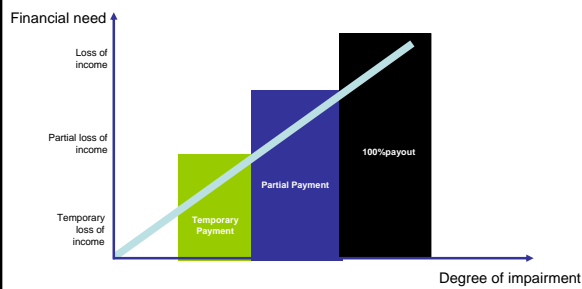
First Stage of Assessment is Medical Impairment Occupation Assessment Aims to Capture Outliers



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Objective, Transparent Benefit Definitions



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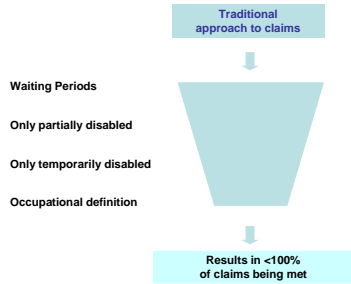
TPD - Current product is flawed

- What is TOTAL?
- What is PERMANENT?
- Based on occupation – own, own or similar, any
- Medical trigger, but occupation provides legal definition
- Often subjective assessment, many grey areas
- Waiting periods required to avoid lottery win
- Tapering of benefit in older ages
- Exclusions for common disorders e.g. back and depression
- Only cover for complete disability - FOS view has been known to differ...
- Expectations frequently not met
- High level of arbitration by Ombudsman
- 1 in 2 TPD claims are currently declined (source: Cover)
- There is at present no standard definition for TPD
- Insurers come to rely on judgement - some conditions are hard to test, inconsistency
- Difficult to predict if person will remain totally disabled for the rest of their lives

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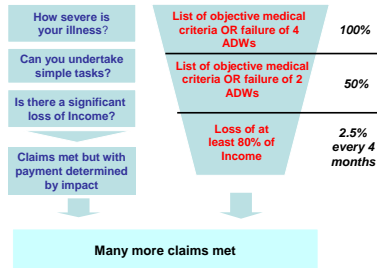
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Disability product/concept needs an overhaul

What is needed?

- Remove over-reliance on occupation
- Payment made based on event or effect
- Payment based on an objective assessment

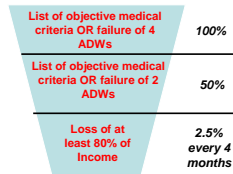


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Disability product/concept needs an overhaul

- **Full Payment**
Pays out on 47 different specified medical conditions OR
Pays out on the failure of 4 ADLS
- **Partial Payment**
Pays out on 17 different specified medical conditions OR
Pays out on the failure of 2 ADLS
- **Temporary Payment**
2.5% for maximum 2 years



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Our early results / feedback

- Some examples of press coverage

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Trade Press

thisismoney <small>Money Advice Service</small>	Are you covered for a rainy day
FT Adviser <small>Financial Times</small>	Britons 30 days from financial crisis
Health Insurance <small>A Publication</small>	Pru gets serious with Critical Illness
MoneyMarketing	Pru covers 140 conditions
FT Adviser <small>Financial Times</small>	Just what the doctor ordered
MoneyMarketing	Will it end in tiers for Critical Illness
COVER	Prudential's long awaited flexible plan aims to shake up the industry

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Trade Press

CI is irrelevant to today's conditions, says Cowman

Protection

By Sam Shaw

Critical illness cover is stuck in the past and innovation is needed to ensure products are relevant to consumers, says Prudential head of protection.

Paul Cowman, Prudential's head of protection, says that critical illness cover is stuck in the past and innovation is needed to ensure products are relevant to consumers.

He says medical advances have brought the need to rework the product as definitions drop up 20 years ago. Pru is introducing a product at the end of May that is expected to take the form of a combined critical illness and income protection policy.

Cowman says the market has become too good for the insurance companies and needs to take more responsibility for ensuring consumers understand their products. He says there is a huge dis-

crepancy between what customers believe is covered by their policy and what is not actually covered.

He says intermediaries have an important role to play in the communication of the benefits of products and consumers but providers and consumers must be made aware.

Cowman says "Many policies do not work because the conditions they cover no longer meet the definitions of 20 years earlier. Market dynamics have created a price-driven industry, with one or two size cuts every week, but no new illnesses are being covered."

He says that people are prepared to pay more for better cover. The current product, paying out on a single payment, just does not work. The market is at a crossroads and needs to be shaken up.

PROVIDER PROMISING TO SHAKE UP PROTECTION WITH NEW GENERATION OF PRODUCT

Pru CI innovation to sweep away concerns

BY SAM SHAW

Prudential has promised to shake up the protection market with a new generation of products.

The head of the new generation has said that it will shake up the market and sweep away concerns that have built up over the years.

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Financial Advice

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Trade Press

Money Marketing

Severity-based CI 'to dominate market'

By Nicola York

South African protection provider Discovery Life has hit back at De Marigny Barnard's criticisms of the traditional critical-illness plan, saying this model will dominate the UK market within three years.

Product development activity Kenny Rabson says when Discovery launched its severity-based approach to CI in South Africa, it struggled with some of the concepts but sales increased as understanding grew.

He says within three years all the major providers in South Africa had moved to products based on severity levels and

these products now account for the majority of CI sales.

Rabson says: "Our experience was similar to what Prudential has experienced. When Discovery launched its severity-based approach to critical illness, competitors fought to protect their market share but this was short-lived as within three years all major life offices moved to severity-based products with more extensive lists of illnesses covered."

CIB principal Peter Chadborn says: "I do not see any reason why other providers will not follow suit but I think main-market providers of cheap policies will not respond very quickly."

Alternative medicine

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Flexible protection

Prudential has launched a protection product that links payouts to the severity of illnesses and has a multiple claim option for recurring conditions.

The Flexible Protection Plan, which covers more than 140 serious illnesses and 50 disability claims to be able to payout earlier and more frequently than traditional critical illness policies. Protection options offered include life cover, serious illness cover, disability cover, unemployment cover and income protection. After receiving an initial payout, claimants may be eligible for further payments if their condition worsens. EL

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