



**The Actuarial Profession**

making financial sense of the future

consultation response

## **ABI Statement of Best Practice for Critical Illness Cover**

**September 2009**

Karen Evans  
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29 September 2009

Dear Ms Evans

[ABI Statement of Best Practice for Critical Illness Cover – 2009 Review Consultation Paper](#)

Thank you for providing the Actuarial Profession with the opportunity to comment on this consultation. Our substantive comments are attached to this letter.

If you have any questions or would like to discuss any of these matters further, please do not hesitate to contact us as per details below.

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Yours sincerely

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Actuarial Profession Response to The ABI Consultation on the Statement of Best Practice for Critical Illness.

## **Introduction to The Actuarial Profession**

Actuaries provide commercial, financial and prudential advice on the management of a business's assets and liabilities, especially where long term management and planning are critical to the success of any business venture. They also advise individuals, and advise on social and public interest issues.

Members of the Profession have a statutory role in the supervision of pension funds and life insurance companies. They also have a statutory role to provide actuarial opinions for managing agents at Lloyd's.

The Profession is governed jointly by the Faculty of Actuaries in Edinburgh and the Institute of Actuaries in London. A rigorous examination system is supported by a programme of continuing professional development and a professional code of conduct supports high standards reflecting the significant role of the Profession in society.

## **Response to Consultation**

The Actuarial Profession welcomes the opportunity to comment on the ABI's consultation on changes to the Critical Illness statement of best practice.

The Profession has restricted its comments on the consultation to broad themes rather than attempt to answer the individual questions contained within the consultation document. We consider it more appropriate that the individual questions are answered by the companies active in the market and those company responses will include the individual views of many Actuaries. We note that there appears to be a wide range of views held by members of the profession on the areas raised in the consultation.

The Actuarial Profession firmly supports the aims of the Statement of Best Practice in providing Security, Comparability and Clarity for consumers. In particular we note the many benefits of the ABI's work on current and previous versions of the Statement of Best Practice. We would however voice three areas of concern regarding the proposed amendments to the statement of best practice:

### 1. Equity between generations of policyholders

We are concerned that whilst the proposed definitions to replace occupational based Total and Permanent Disability ("TPD") definitions may lead to a similar number of claims being payable they may not lead to the same claims being paid. Put another way a successful claimant on an Occupation based TPD definition may not qualify on the new definitions and vice versa. This will create a feeling of inequality between generations of policyholders which would have a negative impact on the industry.

## 2. The added complexity of the proposed definitions

The 9 definitions proposed to replace TPD are extremely technical in nature and, although research may have revealed the headings to be clear, we doubt many members of the public have the knowledge to understand what they would be buying as a result. Moreover, it would seem to us that the training and education requirements for those selling the product would be substantial.

## 3. Potential to Reduce future product innovation

We are concerned that innovation in the market could be constrained by the proposed restriction on including occupational TPD on a Critical Illness policy. A reduction in innovation in the market could lead to a consumer detriment.

The profession would like to offer any assistance it can render to the ABI in the future. As the ABI will be well aware the profession has many members who are active in the Critical Illness market and have significant skills in the area of data analysis. The profession can offer an impartial and confidential analysis service if that would be of assistance.

In addition, the Continuous Mortality Investigation Bureau (CMI) collects claims and exposure data on Critical Illness data and publishes industry wide experience studies on an annual basis. We would be very pleased to discuss ways in which the data collected could be modified to monitor the impact of any changes to Critical Illness definitions.