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 2008 have declined by some 20% from the peak in Q3 03
  Source: Morgan Stanley, Revealing 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

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

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
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

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

The Overseas experience

- Model has been redefined in South Africa
- New 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
How should Severity work?

- Pays out depending on how severe the condition is and should be designed to reflect the general expected impact on an individual's 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

**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”**

<table>
<thead>
<tr>
<th>SEVERITY</th>
<th>%</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>A0</td>
<td>100%</td>
<td>Blindness</td>
</tr>
<tr>
<td>A1</td>
<td>75%</td>
<td>Severe Visual Impairment</td>
</tr>
<tr>
<td>A2</td>
<td>50%</td>
<td>Significant Visual Impairment</td>
</tr>
<tr>
<td>A3</td>
<td>25%</td>
<td>Central Blindness</td>
</tr>
<tr>
<td>A4</td>
<td>15%</td>
<td>Partial Blindness / Tunnel Vision / Surgical Removal of one Eye</td>
</tr>
<tr>
<td>A5</td>
<td>10%</td>
<td>Surgical Repair of a Detached Retina</td>
</tr>
</tbody>
</table>

*Actual definitions abbreviated for presentational reasons*

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?
Totally and Permanently Disappoints?

- 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 affect on people's lives are not catered for
- Consumer and IFA confidence is at an all time low for this benefit
- No standard definition

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

Objective, Transparent Benefit Definitions
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

TPD - Current product is flawed

<table>
<thead>
<tr>
<th>Traditional approach to claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waiting Periods</td>
</tr>
<tr>
<td>Only partially disabled</td>
</tr>
<tr>
<td>Only temporarily disabled</td>
</tr>
<tr>
<td>Occupational definition</td>
</tr>
</tbody>
</table>

Results in <100% of claims being met

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

How severe is your illness?
Can you undertake simple tasks?
Is there a significant loss of income?
Claims met but with payment determined by impact

List of objective medical criteria OR failure of 2 ADWs
100%

List of objective medical criteria OR failure of 4 ADWs
50%

Loss of at least 50% of income
2.5% every 4 months

Many more claims met
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

---

Our early results / feedback

- Some examples of press coverage

---

**Trade Press**

<table>
<thead>
<tr>
<th>Source</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>thisismoney.com</td>
<td>Are you covered for a rainy day</td>
</tr>
<tr>
<td>FT Adviser</td>
<td>Britons 30 days from financial crisis</td>
</tr>
<tr>
<td>Health Insurance</td>
<td>Pru gets serious with Critical Illness</td>
</tr>
<tr>
<td>Money Marketing</td>
<td>Pru covers 140 conditions</td>
</tr>
<tr>
<td>FT Adviser</td>
<td>Just what the doctor ordered</td>
</tr>
<tr>
<td>Money Marketing</td>
<td>Will it end in tiers for Critical Illness</td>
</tr>
<tr>
<td>COVER</td>
<td>Prudential’s long awaited flexible plan aims to shake up the industry</td>
</tr>
</tbody>
</table>
Pru CI innovation to sweep away concerns

Severely-based CI 'to dominate market'