



Institute
and Faculty
of Actuaries

CRITICAL ILLNESS: THE PAST, PRESENT AND FUTURE



Gower Wisdom
Product Director
Old Mutual Wealth



Agenda

- Who are Old Mutual Wealth?
 - CI – the Past
 - CI – the Present
 - CI – the Future
 - Questions
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An Introduction to OMW


- Founded in 1979 - Skandia brand
- Part of the FTSE100 Old Mutual Group, established in 1845, with 16m customers
- Pioneered and led the platform market in the UK, supporting 20,000 financial advisers
- £98bn¹ AUM and £831k² customers
- Pensions: £15bn+ AUM and 230k customers

(1) Includes Quilter Cheviot, subject to acquisition regulatory approval – anticipated in Q1 2015
 (2) Excludes Intrinsic, Quilter Cheviot





Our Customer Propositions

CUSTOMERS
ADVICE
PLATFORM
INVESTMENT MANAGEMENT
ASSET MANAGEMENT

STARTING WEALTH



HIGH NET WORTH

<p>DIGITAL</p> <hr/> <p>RESTRICTED</p> <p style="text-align: center;">INTRINSIC</p> <p>IFA</p> <hr/> <p>INTERNATIONAL IFA</p> <p style="text-align: center;">▲ ▼ ▲</p>	<p> OLD MUTUAL WEALTH</p> <p>OVAL</p> <hr/> <p> skandia International</p> <p><small>A member of the OLD MUTUAL Group</small></p> <p>WEALTH INTERACTIVE</p>	<p>FUND OF FUNDS</p> <hr/> <p>MANAGED PORTFOLIO SERVICE</p> <hr/> <p>DISCRETIONARY INVESTMENT MANAGEMENT</p> <p style="text-align: center;"></p> <hr/> <p>INTERNATIONAL MPS</p>	<p> OLD MUTUAL GLOBAL INVESTORS</p>
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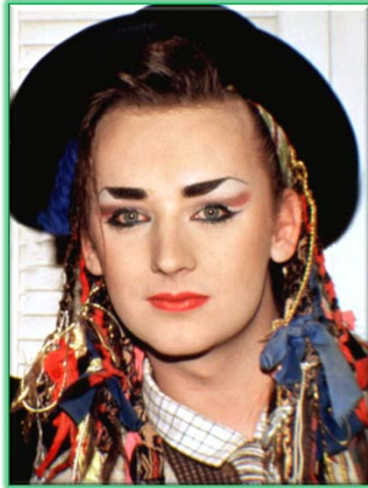
Critical Illness – The Past



Ancient History



The Early Days: When was the first CI Product Launched?



The Eighties And Nineties

- First CI product in UK launched in 1986
- Success first achieved by Direct Sales Force in 80's
- Rush of other providers to market in 90/91
- Providers and reinsurers competed on coverage, but comparisons difficult
- Standard definitions for six illnesses in 1992, led to:
 - Commoditised product
 - Large increase in volumes
 - Price war
- Further ABI reviews of definitions helped ensure confidence in product- First ABI SoBP produced in 1999

Consumer Mistrust – the need for the ABI SOBP

“Claire paid health cover for years, but when she needed help, she was told she had ‘the wrong type of cancer’” *(Daily Mail)*

“While insurers can scarcely argue about whether you are alive or dead, there is plenty of scope for disagreement on critical illnesses” *(Telegraph)*

“Insurers turn down £80m in claims from the critically ill as the sick are left stranded” *(This is Money)*

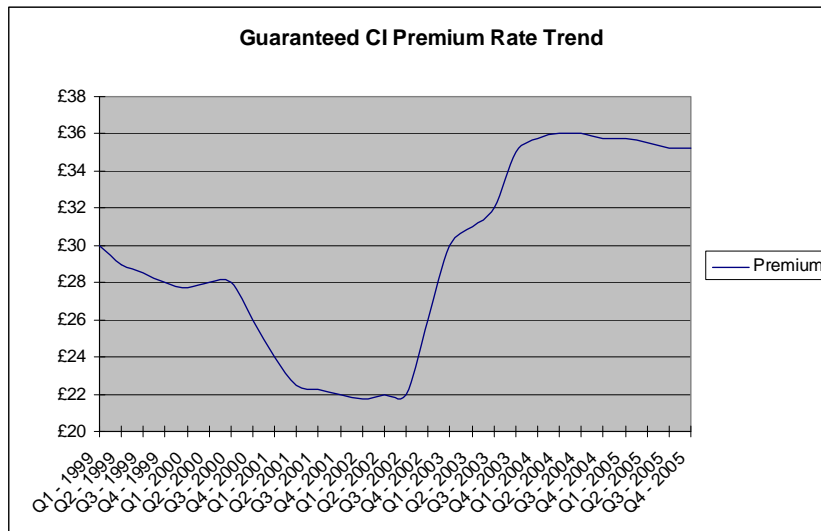
“I believe so many insurers are avoiding claims that all insurers now have to do the same to remain competitive” *(BBC Inside Money)*

“The great critical illness insurance rip-off” *(Daily Mirror)*

2002 – A pivotal Year

- Swiss Re withdrawal of support for guaranteed rates
 - Large contraction of capacity with other reinsurers pulling out of the market.
 - Revios and GE Frankona only 2 players in guaranteed CI market
 - Others only offered reviewable rates
 - Large increase in premium rates and reduced sales in the market
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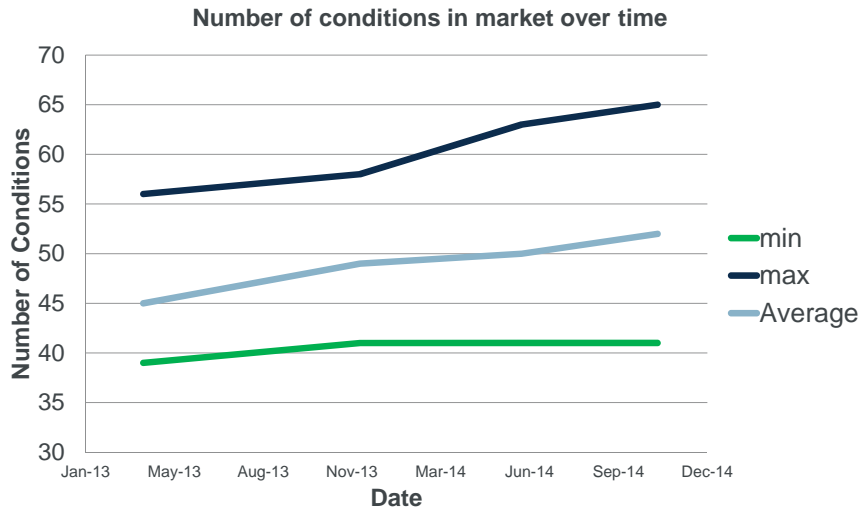
2002 – A pivotal Year



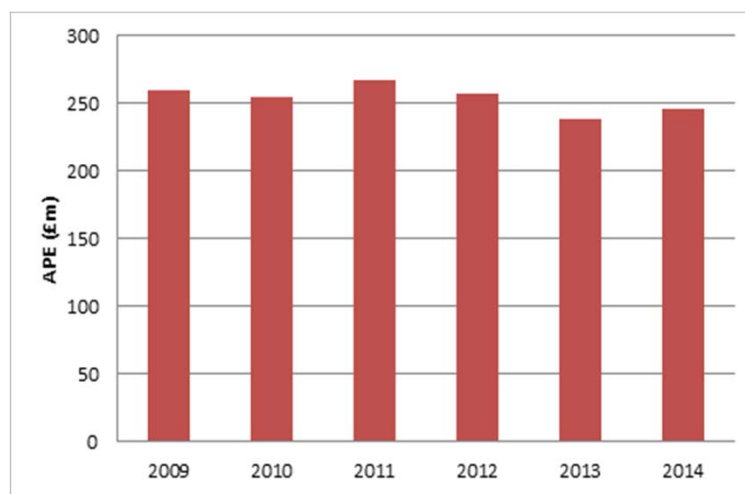
2003 Onwards

- Skandia pioneer partial payments in 2003
- From 2005, other reinsurers slowly started to re-enter market,
- 2006: big year for reinsurance market
- Swiss Re buy GE Frankona
- New ABI definitions
- All reinsurers re-enter Guaranteed CI market
- More Competition led to a significant fall in prices from the peak in 2004
- Frequent updates to the ABI SOBP
- Condition Race Begins in earnest!

The Conditions Race



Size of The Market



Critical Illness – The Present



Current UK CI Market

- Has been a move towards quality CI products
- Recent move to cover all strokes and heart attacks
- Child cover
- ABI Statement of Best Practice definitions increasing coverage
- PruProtect's severity based CI
- Condensing conditions

Views of Consumers

I don't know why they feel the need to distinguish what is or is not included - Critical illness is a critical illness

When you start looking at all the conditions, it's like a foreign language.

If you get the wrong thing, there might be some kind of loophole that lets them avoid

It is a common fact that it is easy to get an insurance policy and they take your money quick enough but when it comes to getting money out of them, whether it is contents in a house or life insurance for a relative who has died, it is a slow process.

Please, Doctor, Can we write in plain English?

- Any malignant positively diagnosed with histological confirmation and characterised by the uncontrolled growth of malignant cells and invasion of tissue.
- The term malignant tumour includes leukaemia, lymphoma and sarcoma except cutaneous lymphoma (lymphoma confined to the skin).
- For the above definition the following are not covered:
 - All cancers which are histologically classified as any of the following:
 - Pre-malignant
 - Non-invasive
 - Cancer in situ
 - Having either borderline malignancy, or
 - Having low malignant potential
 - All tumours of the prostate unless histologically classified as having a Gleason score greater than six or having progressed to at least clinical TNM classification T2NOMO
 - Chronic lymphocytic leukaemia unless histologically classified as having progressed to at least Binet Stage A
 - Any skin cancer (including cutaneous lymphoma) other than:
 - Malignant melanoma that has been histologically classified as having caused invasion beyond the epidermis (outer layer of skin) or
 - The occurrence of a malignant basal cell carcinoma or malignant squamous cell carcinoma positively diagnosed with histological confirmation and characterised by the uncontrolled growth of malignant cells and invasion of tissue. To satisfy the definition of skin cancer in this bullet point, the skin cancer must have invaded and spread to lymph nodes or metastasised to distant organs.

Views of advisors

Keep it all simple, clients don't want the details and I'm not happy talking about a lot of the illnesses stuff

It's clear from the conversations here that we all go on ExWeb for the cheapest premium with a reasonable company and you select that one

We've got a lot on our plate and, if you complicate things, we tend to ignore those policies and move onto the next one

Yes, critical illness cover is expensive but sometimes that protection is essential.... Life cover is cheap but the client doesn't get to see the pay out

How is the market responding?

- **Simpler wording**
- **More alignment with medical definitions, e.g. heart attack**
- **More complete coverage (“plugging the gaps”)**
- **Speed up claim payments**

Critical Illness – The Future



Critical Illness – The Future

- CI payout for a defined symptom / failure of ADLs or specified treatment
- No reference to the medical condition



- Avoids windfalls
- Simpler wording



- Advisors prefer comparable wording
- Big challenge of moving away from ABI SoBP

Possible big future steps – Menu based product

Customer can pick which conditions they want to be included in policy. E.g. a healthy customer may not want to pay for HA cover



- More affordable
- More tailored to individual



- Advisors not willing to sell partial product
 - Anti-selection risk => not any cheaper
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Possible Big Future Steps – LTC Conversion Option

A rider benefit which pays an additional lump sum when a p/h requires long term professional care to contribute to nursing costs.



- Growing awareness of need
- Added flexibility



- CI bought to cover middle ages
 - Expensive option
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Possible Big Future Steps – Multiclaime cover

Policy continues after the first claim so multiple payouts are possible. Conditions related to first claim are likely to be excluded after first claim.



- Growing number surviving “chronic” illnesses
- Financial need growing



- Expensive add-on to already expensive product
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Possible Big Future Steps – Preferred pricing either for clean genetic test results or using “Big Data”

Lower premiums charged for individuals that represent a lower risk.



- More accurate premium given risk of individual



- Potential bad publicity
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Conclusions

- CI product in a good place given problems faced in the past.
- But...lots of room for improving product. No growth in sales and still a huge protection gap.
- Break away from conditions race! Re-focus on meeting customer needs!

Some big challenges:

- Advisor market
- ABI SoBP limiting innovation
- Reluctance from reinsurers to move away from historic definitions



Actuaries are best placed to design new CI products.

Any Questions?