

CRITICAL ILLNESS-‘THE WAY WE WERE’
(with acknowledgements to Barbra Streisand and Gladys Knight)

Some of you may recall the 1970’s ballad ‘The way we were’ and remember the immortal line ‘If we had the chance to do it all again, could we, would we...’.

If this sentiment was applied not to a romantic relationship but to the UK insurance industry’s relationship with critical illness, could we do it all again as in the 1990’s or would we make changes?

There is no doubt that in the UK individual critical illness cover is the product success story of the last 15 or more years. UK sales have boomed over the years with new policies sold in 2002 exceeding 1 million and 2003 forecast to be even higher! On reflection however did we always pay sufficient attention to risk management and issues such as the selection process? Today risk management and related issues are very much at the forefront of insurers and reinsurers minds but this may not always have been the case.

‘Could it be that it was all so simple then?’ Yes it was. UK individual critical illness products in the early days were known as dread disease and covered a simple range of conditions (4-6 illnesses), were led by reinsurers who applied a strict control on maximum levels of cover. The product focus was to accelerate all or part of the death sum to provide a modest payout to fund extraordinary expenses and enhance quality of life.

Then in the early 1990’s we saw a doubling of sales and the beginning of the competitive pressure to cover more and more illnesses (affectionately referred to as the illness race by some!). Much larger sums assured were being allowed and dread disease had metamorphosed into critical illness, a product now being widely recommended by independent brokers as well as company sales forces.

The 3rd life stage of critical illness probably began around 1994 and continued into 1998. Sales increased tremendously as products covered more and more conditions, premium rate guarantees were introduced and the house purchase market with reduced underwriting was recognised as a great vehicle for CIC. Standardised definitions for the core 6 conditions were also introduced in this period and there were rumblings about possible anti selection with a number of very early claims.

The anti selection rumblings carried on over the next few years to be joined by other concerns-high sums assured, the windfall element, medical advances and the impact and durability of the illness definitions and also the guaranteed premium rates which had become the norm for many products (including those sold in the house purchase market sometimes with application forms with reduced and bundled questions).

Today we are at a point where, led by reinsurers (as it was in the beginning), it is widely accepted that there must be changes to the product and that guarantees may become difficult to maintain. There is, too, great awareness of the different risk management elements inherent in the product. **Has time re-written every line?** Hindsight is a great thing but looking back it does seem that we could have been better in dealing with the risk management issues and monitoring. Did we lose the purpose of the product to greed and windfall gain? As we reshaped the product did we analyse fully the risk factors such as the potential impacts of short proposal forms and the increased anti selection risk with high levels of sums assured?

Today a high value is given to risk management in all areas –selection process, product design and pricing, sales process and external factors and influences.

For the selection process we have moved towards application forms with clear, unbundled questions, specifically focused on the information to be obtained. There are no longer issues with

asking more questions provided these questions are clearly worded and easy for the applicant to understand and answer. There should be clear warnings for the applicant on the consequences of giving false information or not providing the information requested. Some offices have reduced the maximum cover they are prepared to allow an individual to avoid the moral hazard and lottery/windfall benefit of the cover.

The spectre of anti selection is still there but there is much greater awareness of introducing tools to help reduce this. Moratoriums, where no claims are paid for certain conditions if diagnosis is within the first 3 or 6 months of buying a product, are being discussed again as a product feature. Interestingly, in the UK moratoriums never found favour despite being widely accepted standard practice in many other markets.

For product design the biggest risk area is guarantees –both for the premium rates and also for the medical definitions. A guaranteed long term coverage (both rates and definitions) which runs for 25 years or more has many risks to monitor- e.g. impact of obesity/pollution and medical advances generally. No wonder support amongst reinsurers for guaranteed rates is difficult to obtain and that discussion abounds on making definitions reviewable.

Critical illness has been a great product to sell –the lump sum benefit makes it attractive to the consumer and the benefits of the product are now well understood. There have been risk issues with the sales process – a lack of understanding by the consumer as to what has been bought and at worst potential mis-selling where the product is sold as income replacement/disability insurance covering all illness rather than the specific conditions covered.

And finally we cannot forget the effect that external factors have on a product like critical illness. Consumers are much more aware today - some are much more litigious and demanding (rightly so –many would say). Critical illness has undoubtedly seen some of this together with, in the last few years, some adverse media attention, which is very different from the good news stories of the early days.

But what of the future for Critical illness – is there one? ‘**Could we, would we do it all again?**’ Yes, those of us who have been with critical illness since the beginning in the UK would, I am sure, still promote the product and hold it up as offering a real benefit to consumers. However we all know that there must be changes to make it a product for the 21st century and we all have come to value the importance of risk analysis. Will we see reviewable definitions become the norm? Will tiered benefits and impact-based definitions become the new product shape? Will the lump sum be replaced by an income based or non-cash payout (either in part or as a whole)? Certainly reviewable rates will be the norm and risk selection procedures will continue to be of high focus.

I hope my ‘**Memories have lit the corners of your mind**’ and through helping to see ‘**The way we were**’ created some useful pointers of where we may be in the future.

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