



The Summit White Paper

Our approach to critical illness
cover needs to fundamentally
change if we are to get back to
growth

In partnership with



Introduction

A new style of event for Protection Review, we held the first Summit on 13 October 2016. At these interactive two-hour events, we'll be seeking change through debate. Styled around a classic "for and against" structure we'll be tackling important, often controversial, industry issues.

The Protection Review team believe we need to push for more growth in UK protection. Ideally this means across all sectors, including life cover, critical illness and income protection. But the industry needs to take a close look at critical illness because sales have declined and the conditions race isn't engaging customers.

So, the topic of the first Protection Review Summit was:

"Our approach to critical illness cover needs to fundamentally change if we are to get back to growth."

We'd like to thank SCOR and AIG for being our partners for the first Summit, and of course everyone who came along and took part. All attendees shared a strong, positive desire to push the industry forward for the benefit of customers. Not a talking shop, this was an action oriented event where everyone was constructive, added value and focussed on customer outcomes.

We've put together this White Paper based on the content of the debate and at the end, include 5 key recommendations for the protection industry.

Before the debate we heard brief presentations from four speakers.

Vicky Churcher AIG Life

Vicky started by saying that AIG Life doesn't believe the critical illness market is fundamentally broken, but we do need to rethink it. We must look at the reasons people aren't buying it, and fix those reasons.

Vicky said: "Industry commentators argue that critical illness has just become too complex. They call it a conditions race. I worked for Bupa 20 years ago. In those days, we sold critical illness with nine conditions. It was quite easy to explain. These days, it's far from that. At AIG Life we think one size does not fit all. There's no market, anywhere, where one size fits all. Critical illness is no different. We need to offer the customer's choice. Not just customers, but advisers as well."

AIG Life decided to go back to basics with its recently-launched Key3 product. It just covers cancer, stroke and heart attack.

Vicky believes some intermediaries prefer not to talk about critical illness cover rather than get into its complexity.

"Today, some providers cover 166 conditions. Is it any wonder then this has added to the time and the complexity to talk about critical illness? They find it easier to just not talk about critical illness at all. If you're wondering why sales dropped by 25% in the last four years, that probably goes some way to explain it. It just takes too long and it's too complicated."

But AIG Life also realised that if advisers do have time to explain it and customers can afford it and are willing to listen, then of course the comprehensive products are the best products to recommend.

What AIG Life has done is offered choice. And it is also keen not start another conditions race at the simple end of the market. It believes that everyone should be looking to grow the critical illness market rather than take it from other providers.

The Key3 product seems to be meeting this aim.

Vicky concluded by saying: "One thing we have noticed is we are getting business from brokers who were not previously selling critical illness and from customers who had never previously heard about critical illness, so we can honestly say we believe we are growing the market."

Emma Thomson, LifeSearch

Emma began by asking what sort of growth do we want to see in the market: "Do we actually want the critical illness market to grow or do we want the protection market as a whole to grow?"

Pointing at articles in publications like the Daily Mail, which highlight declined critical illness claims, Emma discussed another unintended consequence of the conditions race: - there will always be claims that don't meet the definitions e.g. for less serious illnesses or accidents. They might qualify under an income protection product, but never under a critical illness plan. Adding more critical illness conditions might give people the comfort of a longer list, but they still don't cover the events income protection is there for.

Emma believes income protection should come before critical illness in meeting customer needs. But critical illness is more popular. Why?

She said: "Clients like that lump sum element. They like that windfall. It's also a bit simpler to explain. If you get diagnosed with one of these illnesses, you get £100k or £300k". But do clients understand the complexity of all the definitions beyond that simple assessment of what the product offers?

Emma believes we should be putting more emphasis on income protection but admits it's hard to cover the windfall effect. And perhaps a hybrid income protection/critical illness product, like the old Ageas Real Life Cover, should be a priority.

She said: "That's where I think we need to go. To help more consumers claim when they are ill, and get a payout. They might not get the windfall, but they're going to get something. They're still not going to make the Daily Mail headline, because they're still in receipt of some money that's going to help them throughout their illness.

That's all a customer wants, to reflect the need. Who needs £100k or £300k if they're going to be back at work in six months' time? That's not what CI was designed to do. Then you've got other poor people who've got something far more serious and they've ended up with nothing."

Alan Lakey, CI Expert

Alan began by saying he didn't think critical illness cover was broken. But it was fractured.

Talking about the 104 conditions covered by critical illness plans, 22 Association of British Insurers (ABI) standard definitions, and numerous partial payments, he once again highlighted the complexity of the product. And the part CI Expert has played in trying to interpret that complexity for advisers.

Alan raised some interesting points:

- Is there any point in having 22 ABI model wordings now there are three times as many non-standard ones?
- Some companies use different words to describe the same things, e.g. open heart surgery, and this causes client and adviser confusion.
- Should we lump similar conditions together (e.g. all those including permanent neurological deficit) and reduce the overall number?
- Could we develop an outcome based product that didn't rely on so many condition definitions?

Alan concluded by saying: "What we've got is a series of products that are so confusing to advisers that they're still mainly sold on premium. Some firms I speak to always use Aviva, because that is their rationale for choosing. They've got none of the methodology, unless they use something like CI Expert or delve into it themselves."

Roy Chappell, SCOR

Roy opened with a bold statement that it's the distribution model that's broken, not the product.

Referring to the impending US presidential election, Roy compared the UK protection industry to the way Clinton and Trump have spent most of the campaign criticising each other rather than saying what they are going to do to benefit America.

Do we spend too much time criticising our own products? Roy said: "The biggest crime of our industry is all those people in this country who don't have any cover - whether it's income protection, critical illness cover or life insurance. And it's not people outside of our industry that do that to us, it's us. We do that to ourselves."

He went on to say, "We say don't buy critical illness cover because it's crap, buy income protection. All in all, customers think, 'Hang on. All these people in this industry, they think their products are crap. Why would I buy anything from those people?'"

Talking about the FAMR review Roy quoted from its aims, "...the Review should include the development of 'universal truths' or 'rules of thumb' as an agreed guide for providers to delineate generic information and messaging which will be suitable for the vast majority of consumers."

Roy's view was that FAMR was an opportunity. He said, "The recent FAMR report has given us as an industry the opportunity to refocus on bringing protection to those most in need. They've allowed us to use a 'rule of thumb' approach when flogging some protection, meaning it doesn't need to be perfect but it's better that those in need have some protection than them having none at all."

Roy concluded by encouraging the industry to be more positive in trying to sell more protection in general rather than self-destructive activity around the products.

The Debate

In the debate that followed we looked at some of the points raised by our speakers and invited the audience of advisers, providers and reinsurers to get involved and speak their minds.

On simple vs complex

We started the debate by looking at the difference between simple and complex products. If you must explain to a client that there's a simpler product, do you not have to explain the more complicated one to allow them to make a choice? Is that going to help solve the problem?

One adviser commented: "As an advisory firm, it's tricky on a simple product. We will present to a client their options, whether it was simple or complex, and often that decision is driven by their budget. But then there's other ways of cutting [to meet] their budget, apart from just on removing conditions as well. For me, a client buying any form of protection is good news, whether it's the least comprehensive critical illness policy or the most comprehensive. At least they've got some. We deal with claims quite a lot and that's the moment of truth for our industry and that's what we're here for, is paying claims, making the claims process easy."

On price

Alan Lakey made the point that often advisers use price to differentiate even between the most complex critical illness products. The debate moved on into this area.

A product provider said: "Unfortunately, 95% of protection sales are bought from portals. As you all know, when you use a portal it is always in price order so the cheapest is always at the top. Added to that, networks, and their compliance departments, [say] if it's not in the top three, [there] needs to be justification why the product has been recommended. Those two things alone mean that price becomes king.

Unfortunately, all the tools and all the compliance around it, drives it back down to price, which is why there's a couple of providers that do well, because they just play the price game and people don't look further than that into what conditions will be covered."

An adviser replied: "It's a combination of both. You're working out what the client's needs are and then you're using those needs to justify the base recommendation of why they need a certain amount of cover and how long the term should be. Then the next stage is [matching] the right provider to those options. So, price is obviously one thing. I think that a bad adviser will just sell based upon price. But it's a starting point to say this is the lowest premium in the market. And then you go on to talk about quality. From there, you come to a position where quite often it's not actually the lowest price product that sells."

Another adviser came up with a very interesting idea: "Over the years we've seen prices come down and down and down and it hasn't actually helped any of the people buy. All it's made people do is get a bit more cover for their money. There are so many different pieces of research that show that consumers typically have no idea how much £100k of life cover is going to cost and they overestimate it. So, if we all bumped up our prices by 30% we could offer cover to people who we currently decline."

On grouping critical illnesses

Another of Alan Lakey's suggestions was to group similar types of critical illnesses together to reduce the overall number of separate conditions. Is this a good way to try and simplify the critical illness product?

An adviser in the audience said: "That's not what simplification is. That's adding complexity. The simplification is simply you've got a product for death, you've got a product that they all have. I prefer the point I think that Emma was making [about] that hybrid between income protection and critical illness. That's where simplicity comes from, so customers understand. There are loads of definitions, I can fall through gaps and not get paid."

On paying claims

Several people mentioned the perception the public has that we don't pay claims. Even though we do pay, and there are positive stories out there, claims declined on a technicality hurt the industry.

A media consultant in the audience said: "We should just do good things, and shout about them. We seem to think we can decline a claim for correct reasons. 'It says so, there in the small print, we are right to decline this claim'. That's a big fat loss for everybody, and declining on a technicality is not winning for anyone. That is contributing to the overall loss of sales.

We should do good things, and we should shout about them."

On hybrid products

Building on Emma's call for more focus on income protection, the debate turned towards hybrid products again.

One media consultant said: "If you don't get your money there, you get the money there, rather than it's all or nothing."

An adviser added: "I say critical illness dies, income protection rules. People don't need a large lump sum in the vast majority of cases. It creates a headache. They all have an attraction to it because we like this windfall, as Emma said, but they don't need it. What they need is to replace income."

A provider thought the Fortis/Ageas (now AIG) hybrid product hadn't done well because: "You couldn't put it on the portals under a critical illness category, or life category, or income protection category. So it didn't appear. The networks wouldn't accept it because there was no other product like it to compare it with in order to pass it through compliance."

Another adviser thought underwriting of the income protection element might be an issue, "In general, income protection is more important than critical illness. The problem is subject to the health of the applicant a critical illness plan can be easier to get. We're not all eligible for an income protection plan.

If I were to take out a £500k critical illness plan today, no one's going to stop me. If I were to take out £50k pa of income protection, I'm going to be asked questions about my income, the average I'm getting paid whilst I'm ill. It all conspires to make it a tricky sell. If we could make the underwriting of income protection easier, I'd recommend more of it."

Protection Review's actions for the industry

The Protection Review Summit speakers and attendees agreed the concept of critical illness cover wasn't broken, but our current approach to sales and marketing isn't working and definitely needs to change.

Here are five actions we believe the industry should take to get critical illness cover back to growth.

- The conditions race clearly hasn't grown the market. Indeed, it's probably put off some advisers from talking about the product and some customers from buying it. Alan Lakey's idea of simplification of the product by grouping conditions is something we should explore. We've done it a little bit with Parkinson's syndromes, and some dementia conditions. We'd need to avoid making critical illness more complex whilst trying to simplify it though.
- We encourage more developments like cancer stroke and heart attack plans to open niche markets and to appeal to those who find the mainstream product too complicated. If people are clear what is covered then the differences in products shouldn't matter.
- The industry should look again at the hybrid model and the issues that defeated it. Making it less of a windfall payment would help. But the portals, network panels and compliance departments would have to be more accommodating of something 'new'.
- We should work together more as an industry to generate more positive stories that would help everybody; the customer, advisers, and the networks. Rather than self-destructive nit-picking at product level, we should focus more on growing protection. We just need to make sure we're doing everything we can to reach out to more consumers, to get more consumers engaging with us.
- The structure of the protection insurance industry and how portals, network panels, and compliance work conspire to put a focus on price. This has led to an illusionary price upfront for many applicants who find they are rated during underwriting. We think the industry should try and take the focus away from the headline of cheap price and try and be more inclusive for people we now consider to be impaired lives, who 20 years ago would have been standard risks.

To find out more about the Protection Review Conference and Dinner visit: protectionreview.co.uk

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