

ABI revisions to the CI Statement of Best Practice – focus on TPD

Zoë Palgrave considers the latest proposals.



The Association of British Insurers (ABI) has recently completed a three-month consultation period (ending 30 September) looking at changes to its Statement of Best Practice (SOBP) for Critical Illness (CI) cover. The main change proposed is to replace the Total and Permanent Disability (TPD) clause included in CI insurance policies with a set of model definitions based on the main underlying medical reasons for the claim, to improve consumer clarity about exactly what their policies cover.

Initially, there were a number of differences between the products available which historically made them difficult to compare, particularly in the Independent Financial Adviser (IFA) sector. The introduction of model definitions for six illnesses in 1992, and subsequent generic terms and model wordings has improved consumer and IFA confidence in the product. With over 2.8 million policies containing CI cover sold in the last five years, it continues to be a successful insurance product.

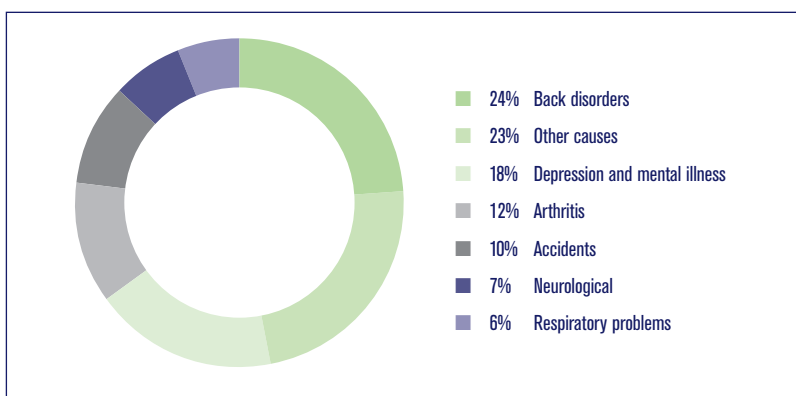
Issues with the current approach

TPD is now covered by the majority of CI policies and according to ABI research, although TPD claims account for a relatively low proportion of total CI claims (approximately three per cent), 55 per cent of these claims are actually declined. TPD also accounts for a significant proportion of complaints to the Financial Services Ombudsman Service (FOS) about what is covered under CI. From the adjudications given by the FOS, it does not appear that the vast majority of claims have been assessed wrongly by insurers; it seems that the claims made by policyholders are simply not valid under the policy conditions. In addition, although most claims on CI policies are paid promptly, TPD claims often take a considerable amount of time to assess, delaying any payout to policyholders.

Currently, there is no model definition for TPD. Each insurer is able to use its own definition to assess whether someone has become totally and permanently disabled. These definitions include being permanently unable to do a person's 'own' or 'any' occupation or being unable to perform a defined number of specified tasks. The use of a definition based on occupation



Figure 1 | Underlying medical reasons for TPD claims (%)



Source: Association of British Insurers (ABI)

appears to cause confusion with income protection (IP) products and in many cases customers do not appear to understand what is meant by 'total' or 'permanent' in the context of disability cover. Often, little time is spent explaining TPD cover during the sales process and it is mistakenly seen by both providers and consumers as a 'catch all' if the policyholder becomes unable to work.

The proposed approach

The key aims of the SOBP are to help consumers with the following:

- security (providing a safeguard that the minimum standards of cover are used across the industry)
- comparability (making it easier to compare CI insurance across different insurers)
- clarity (helping to improve understanding about what each product does and does not cover).

To achieve these objectives, the SOBP includes a common format for how insurers should present CI in product literature, including model definitions for the illnesses most commonly covered. TPD is being addressed in this revision.

The ABI working group set up to address TPD believed that much greater clarity would be achieved by producing a set of specific model definitions with clear descriptive headings covering each of the main underlying medical reasons for the TPD claims. This was achieved by analysing past TPD claims as shown in Figure 1.

The ABI has devised a set of model TPD definitions to be used, if such cover is included in a CI contract. The aim is to provide a similar level of TPD protection, but with greater clarity on what is and is not covered. The intention is also to have a clearer distinction between CI and IP policies, by removing definitions based on occupation. It also proposes a new model definition for 'loss of the physical ability to look after yourself.'

The consultation paper suggests that TPD cover in its current form should not be included within CI policies. This does not, however, apply to standalone TPD policies. The TPD changes would apply to new policies taken out after the new statement is adopted.



“ The review aims to ensure that customers continue to get meaningful, understandable cover that meets their needs at an affordable price ”

Pros and cons

Replacing TPD with the new set of definitions is not intended to increase or decrease premiums, however, it is unclear whether this would actually be the case. It is possible that if these changes are implemented, 'own occupation' TPD may be offered as an option, and in such circumstances the underlying issues that the proposed approach is trying to address would remain.

The review aims to ensure that customers continue to get meaningful, understandable cover that meets their needs at an affordable price. Although the new definitions may require changes to current underwriting processes, it seems that underwriting may be more straightforward with the new approach. Also, it should be easier to determine whether the requirements have been met based on the diagnosis from a doctor or consultant. However, from a policyholder point of view the definitions could seem overly complicated and therefore may not address the issue of submitting inappropriate claims. One possibility could be to only use a 'loss of the physical ability to look after yourself' definition as this could be more clearly understood by most policyholders.

These changes will require product provider resource to implement, possibly to the detriment of other initiatives. Disclosure documentation should, however, be clearer about the

scope of cover if a common approach is used, and a comparison of products would be more straightforward. One common set of definitions would facilitate the training of advisers, although clear communication of the changes to intermediaries would also be required, along with a focus on education so that intermediaries and consumers fully understand what their policies cover and the differences between IP and TPD cover.

Conclusion

While the new approach is addressing the right (and difficult) issues, and it is clear that some changes are required to improve the clarity of TPD cover for policyholders and advisers, this approach is quite onerous for cover that ultimately gives rise to a small number of claims. Perhaps as an alternative, a more straightforward and pragmatic solution could be found, which together with a greater focus on consumer and adviser education, could lead to the desirable outcome of fewer contested claims.

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