

How to find your way through the critical illness maze

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With insurers offering increasingly complex critical illness products, Alan Lakey, principal at Highclere Financial Services, explains the detail that brokers must consider when recommending products to clients.

What should advisers look for when selecting a critical illness product for their clients?

Ignoring the obvious determinants based around existing conditions, affordability and idiosyncratic preferences, the main purpose of selection is to maximise the likelihood of the plan paying a claim. Some advisers will succumb to marketing department blandishments regarding the numbers of conditions covered or the quantity of ABI+ conditions. There is also a high number who opt for the cheapest plan available, on the mistaken basis that it is an easily provable identifier of 'value'.

How should advisers identify the most suitable plan? How does one place a realistic value on the various conditions included?

I believe there are two areas to focus on. Firstly, assessing the added value that some insurers provide by incorporating limited cover for higher risk conditions. Secondly, analysing the quality and worth of the actual claim wordings. Most 1990s plans offered cover for early stage prostate cancer and coronary angioplasty interventions (on two arteries). Yet today, neither condition is a standard feature. Nonetheless, a few innovative insurers

include limited cover for these conditions. Bupa will pay the lower of 25% of the benefit and £25,000 for an angioplasty operation on two arteries and it and LV= pay the same on diagnosis of early stage prostate cancer. Bright Grey, Friends Life, Scottish Provident and PruProtect also provide percentage payments for early stage prostate cancer.

Some might question the worth of such cover. However, statistics show that each year around 6,500 people undergo multi-vessel angioplasty operations and more than 40,000 men are diagnosed with early stage prostate cancer. This compares with the 900 diagnosed with encephalitis (of which around 5% meet the claim definition) and the 3,300 who undergo a major organ transplant.

Many other worthwhile conditions are covered using this percentage payout basis - benign spinal cord tumour by Bupa, carcinoma in situ of the oesophagus by PruProtect, carcinoma in situ of the cervix uteri by Bupa. Special consideration has to be given to mastectomy due to ductal carcinoma in situ of the breast, which is included by Ageas, Bupa, Bright Grey, Friends Life, Legal & General, LV, PruProtect and Scottish Provident. Not only is this an emotive and disturbing operation for women, it is also relatively common with more than 47,000 diagnoses each year. Of these, around 1,000 are treated by mastectomy and 1,300 by lumpectomy - a procedure additionally included by Bright Grey, PruProtect and Scottish Provident. Statistically, for a 50-year-old female, mastectomy/lumpectomy is 15 times more likely to result in a claim than cardiomyopathy and ten times more likely

to result in a claim than cardiomyopathy and ten times more likely than motor neurone disease. Even allowing for a 20% payout, this clearly offers better value and also assuages one of the greatest fears.

When we assess some of the more common conditions, we again find vast differences between companies. Consider loss of limbs - the ABI model wording that is in general use requires the physical loss of two limbs.

The superior wording used by Ageas, Bupa, Friends Life, Legal & General and LV= requires the loss of only one limb. You might think this a relatively minor matter, but research shows that men are 15 times more likely to lose one limb, with females more than 20 times more likely.

Dementia and Alzheimer's disease provide another instance where apparently similar cover actually creates an entirely different claims experience. Some companies cover dementia, whilst others only include Alzheimer's disease. Yet, statistics show that for those below age 65, diagnosis of Alzheimer's makes up only a third of dementia diagnoses.

With coronary artery bypass operations, Ageas, Aviva, Bright Grey, Friends Life, LV= and Scottish Provident all allow keyhole surgery, a technique which is increasingly being used. Currently, this only enhances the claims potential by around 6%, but this differential is likely to increase.

Under the standard definition for paralysis, there has to be at least two limbs affected. Ageas, Friends Life, Legal & General and LV= all cover paralysis of one limb, something that accounts for 18% of paralysees.

Other matters worthy of scrutiny are the standard exclusions.

With cardiomyopathy, all bar Bupa, PruProtect and Zurich, apply a drug and alcohol exclusion - a not insignificant matter as 5% of all incidences are due to drug abuse.

Similarly, LV= is the only insurer not applying a drug or alcohol exclusion for coma. With liver failure, Friends Life and Zurich do not apply a drug or alcohol exclusion.

The following companies apply an alcohol exclusion for major organ transplant: Aegon, Aviva, Bright Grey's LPP, Foresters Life, NFU Mutual and Scottish Widows. With 58% of liver failures alcohol related, the exclusion will naturally impact on liver transplant claims.

From this, we can see that it is a forensic scrutiny of the conditions and how the wording allows or disallows a claim that enables a value judgement to be made.