

A guide to **critical illness cover**

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Introduction



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The need for protection is as great as ever. A third of households (8.5 million) wouldn't be able to cope financially if they lost their main source of income, while only 12% of the population have critical illness cover and only 7% have income protection¹.

While take-up levels are low, the awareness of critical illness and income protection is quite high, at in excess of 88%. If consumers are aware of their need and aware of the solution, all that may be needed is for advisers to make a strong recommendation to buy.

The challenges facing the critical illness market are those facing the protection market generally, namely, low penetration, lack of value and dented customer confidence.

Protection business is flat and there is little prospect for improvement. New premiums in Q1 2011 showed a slight improvement on the previous quarter but remain below the £200m mark². The percentage of business attributable to advisers remains around 50% and most fluctuation is in the single tie and non-intermediated sectors, which suggests that advisers generally do not prospect outside their target audience.

The challenge is to increase protection sales but the figures suggest that the adviser sector has little capacity to do so. After the Retail Distribution Review (RDR), more advisers may take an interest in protection, however it remains to be seen whether the sector can reach outside its traditional client base.

Advisers should consider new ways of reaching people, for example through workplace marketing. The sector must also consider how it will compete with direct-to-consumer propositions and those operating in the up and coming standalone short-term income protection space. This guide seeks to identify opportunities for advisers and give guidance on how to make the need for critical illness cover real for clients.

For more information on how we can support education or panel selection for critical illness, please contact us on **0808 1000 804**.

A handwritten signature in black ink that reads "Ben Heffer".

Ben Heffer

Insight Analyst, Protection

¹ Scottish Widows, May 2011

² Association of British Insurers

Industry developments

Critical illness cover has its origins in the 'dread disease' policies that were developed in South Africa as a means to pay for major medical procedures. Since its introduction to the UK in the 1990s, it has largely become a means to repay mortgage debt in the case of financial hardship resulting from serious illness.

Critical illness cover is now widely available and products are highly developed. It is offered as a standalone benefit, either on a term or whole of life basis, or more commonly as an accelerated benefit on life assurance plans.

There are currently 30 providers offering critical illness benefits in the market through 56 distinct product offerings. 18 providers offer a standalone benefit either via a separate plan or as an option on a menu proposition, which typically can provide critical illness on a standalone basis or in conjunction with level or decreasing term assurance. Five providers have a standalone critical illness plan, five have life assurance plans that automatically include critical illness cover and 12 providers have life assurance plans with a critical illness option. So despite contraction in the market, advisers still have a wide choice of products to recommend to clients.

Of the 30 providers currently offering critical illness cover, 16 take a direct-only approach. Only six offices are dedicated IFA only and eight offer critical illness cover both via advisers and direct. The shift away from IFA-only distribution is indicative of the pressure on insurers to increase sales in the face of a declining adviser sector and one that is typically not focussed on protection insurance. Opportunity exists in advisers defending this space.

In the past 12 months, there have been four new product launches involving critical illness cover and 11 enhancements to existing propositions. Additionally, four providers have withdrawn from the critical illness market.

Since May 2010, AXA (now Friends Life), Bright Grey, Bupa, Fortis (now Ageas), Friends Provident, LV=, PruProtect and Scottish Provident have all enhanced their critical illness contracts.

IO Despite contraction in the market, advisers still have a wide choice of products to recommend to clients OI

The conditions race and ABl+

The nature of the past year's product enhancements illustrates two things. It confirms the trend in critical illness development towards enhanced definitions (ABl+) and away from reliance purely upon the number of conditions a policy covers. Second, it demonstrates that providers are still willing to add more critical illnesses as a hygiene factor in order to compete in the adviser channel.

While comparing policies on the basis of the number of illnesses or procedures covered is a simple marketing message for advisers to employ with clients, the value of the cover on a critical illness policy is not simply a function of the number of critical illnesses covered but moreover whether they are likely to give rise to claims.

The value of some critical illnesses is diminished in cases where the cover overlaps with other conditions, for example severe lung disease and emphysema, or Alzheimer's and pre-senile dementia; and where the cover overlaps with total and permanent disability (TPD), for example rheumatoid arthritis. Some conditions are rare: encephalitis, for example, has an incidence rate of just 0.15 per 10,000, and aplastic anaemia has an incidence rate of 0.02 per 10,000. Also, some definitions are framed such that few claims will be paid.

Up to January 2005, the average number of critical conditions increased steadily to around 27. This was stable for two years but then increased significantly in 2009. Since then the increase in average number of illnesses covered is slowing down.

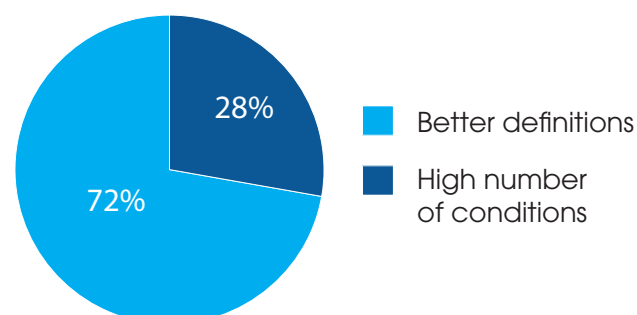
Any improvements to the definitions have to be welcomed, but advisers should be cautious of the ABl+ marketing message as it is by no means certain that seemingly more generous definitions will necessarily give rise to more claims. In our research with advisers, while 38% of advisers said they preferred policies with a high number of critical conditions, when given the choice between better definitions and a high number of critical illnesses, the majority (72%) favoured better definitions.

The providers are in essence delivering what the adviser community seems to want: better definitions and a high number of critical illnesses covered.

Condition inflation	
Year	Average number of illnesses
January 2005	27
February 2006	26
June 2007	27
June 2008	30
March 2009	34
May 2010	35
May 2011	36

Average number of critical illness offered on policies from 2005-2011 (Source: Defaqto)

What advisers want from critical illness cover



Source: Defaqto IFA Survey, June 2010

Improved children's cover

Cover has also been enhanced with improvements to children's critical illness and the removal of exclusions.

Bupa, AXA (now Friends Provident), Legal & General, Friends Provident and LV= improved their children's cover; Legal & General and Friends Provident also removed exclusions. Friends Provident removed the self-inflicted injury exclusion from its contract and increased the number of children's conditions to 36. Bupa removed the congenital conditions exclusion removed from its children's benefit; AXA increased the age for a dependent child to those aged 21 and in full-time education; LV= increased the number of children's critical illness conditions to match the main plan.

New product launches

In addition to the relaunch of Legal & General's Multi Protection in May 2010, there have been three other critical illness launches. Ageas Protect brought its Low Start Term Assurance and Low Start Critical Illness with Term Assurance proposition to market in February; PruProtect's new Business Protection product is available for life cover and disability cover. In this context, 'disability cover' describes a number of serious illness conditions akin to those covered under critical illness policies. In January, Canada Life's group critical illness plan was relaunched, incorporating a number of enhancements.

Provider entrants and exits

During the past year, two companies – Skandia and Unum – have withdrawn their critical illness contracts. Two providers that offered critical illness have closed to new business: Progress from Royal Liver and Sun Life Financial of Canada. There will be further contraction in this market once the integration of Bupa, Friends Provident and AXA is complete under the new Friends Life banner.

Despite this, the critical illness market is still well served with quality products.

Critical illness timeline May 2010—present

May 2010

Fortis

Improved its critical illness definitions for coma, heart valve replacement or repair, paralysis of limb and third degree burns. A new condition, multiple system atrophy, was added and access to the Best Doctors service made available.

Legal & General

Re-launched its menu product, called Multi Protection, with:

- Nine enhanced critical illness definitions: benign brain tumour, coma, coronary artery by-pass grafts, heart valve replacement or repair, HIV infection, loss of hand or foot, Parkinson's disease, paralysis of a limb and third degree burns;
- Four new illnesses added: mastectomy for ductal carcinoma in situ, multiple system atrophy, open heart surgery and removal of an eyeball, bringing the total number of critical illnesses to 39;
- Improved children's cover, the removal of three exclusions, improved guaranteed insurability options (GIOs), product flexibility and waiver of premium terms.

November 2010

AXA

Enhanced its Protection Account, including increased children's critical illness age, addition of open heart surgery, and improved definitions for stroke, HIV and cardiomyopathy.

December 2010

Sun Life Financial of Canada

Closed to new business in the UK.

September 2010

Progress

Progress from Royal Liver closed to new business.

Friends Provident

Enhanced its cover, including improved definitions for heart attack, benign brain tumour, coronary artery by-pass grafts, and heart valve replacement or repair. Mastectomy for carcinoma in situ was added.

October 2010

PruProtect

- Added eight new conditions: lumpectomy for ductal carcinoma in situ of the breast, severe inflammatory Crohn's disease and moderately severe inflammatory Crohn's disease, craniotomy, encephalitis, carcinoma in situ of the oesophagus, Guillan-Barré syndrome, spinal tumours and pemphigus vulgaris;
- Introduced six enhancements to definitions: fibrotic lung disease, heart attack, benign brain tumour, drainage of brain abscess through craniotomy, spinal meningioma and surgical excision of spinal meningioma.

Bupa

Enhanced its Critical Illness and Life with Critical Illness Cover plans including:

- Two new conditions with full payout: benign spinal cord tumour and severe Crohn's disease;
- Three new conditions with partial payout (the lower of £12,500 or 12.5% of the sum assured): carcinoma in-situ of the cervix uteri, Crohn's disease and ulcerative colitis;
- Accelerated payment (25% up to max of £25,000) for 'specified surgical treatments'. The payout is triggered when the insured is on the list for surgical treatment for aorta graft surgery, coronary artery by-pass grafts, heart valve replacement or repair and open heart surgery. At the same time enhanced definitions were applied to coronary angioplasty (partial payout), cancer, which now covers malignant basal cell and malignant squamous cell carcinomas, and keyhole surgery was included for specified conditions.

Bupa

Sold Health Assurance arm to Resolution.

February 2011

LV=

Critical illness contract enhanced by:

- Extension of maximum age to 70;
- Increase in maximum term for Guaranteed Critical Illness cover to 40 years;
- Improved definitions for benign brain tumour, coronary artery bypass, heart valve replacement, loss of hands or feet and paralysis of limbs;
- Addition of six critical illness conditions (encephalitis, mastectomy, open heart surgery, primary pulmonary hypertension, prostate cancer and systemic lupus erythematosus) including two partial payments.

Bupa

Bupa Group Protection products changed their name to Bupa Group Risk.

Following the sale of Bupa Individual Protection to Resolution, Bupa's life and protection products changed their name to Bupa Individual Protection.

Ageas

Ageas Protect launched a Low Start Term Assurance and Low Start Critical Illness with Term Assurance.

June 2011

Zurich

- Added two new conditions: multiple system atrophy and removal of an eyeball;
- Improved the definitions of five existing covers: HIV infection, major organ transplant, Parkinson's disease, stroke and benign brain tumour;
- Increased the number of critical conditions for children's cover;
- Adopted the new model wordings for total and permanent disability and the new model wordings for cancer and terminal illness.

April 2011

Unum

Withdrew its standalone critical illness cover, Elixia 123.

January 2011

Zurich

Increased the maximum sum assured for critical illness cover from £2m to £7m, with immediate effect.

Bright Grey

Enhanced the definitions of three of the critical illness conditions covered by the Personal and Business Protection plans: benign brain tumour, coronary artery by-pass graft and heart valve replacement.

Canada Life

Relaunched its Critical Illness Plan, incorporating a number of enhancements.

Bupa

Bupa Individual Protection raised the medical underwriting limits of its life and critical illness plans.

Ageas

Fortis Life will now use Ageas Protect name in the life protection market.

March 2011

PruProtect

Launched a Business Protection product, which offers Life Cover alone, or Life Cover and Disability Cover for Businesses.

Axa

AXA rebranded to Friends Life. The AXA Protection Account has been re-branded the Friends Life Protection Account.

May 2011

Bright Grey

- Improved two definitions: stroke and chronic lung disease;
- Added five new covers: pulmonary artery graft surgery, encephalitis, intensive care, multiple system atrophy and pneumonectomy;
- Additionally, it will now pay the lower of 20% of the sum assured and £15,000 for low grade prostate cancer and ductal carcinoma in situ.

Scottish Provident

- Improved two definitions: stroke and third degree burns;
- Introduced cover for systemic lupus erythematosus, encephalitis, intensive care, multiple system atrophy and pneumonectomy;
- Additionally, it will now pay the lower of 20% of the sum assured and £15,000 for low grade prostate cancer and ductal carcinoma in situ.

Establishing the need for critical illness cover

Unlike life assurance, which is taken out to benefit a client's dependants, critical illness and income protection insurance, unless written for keyperson cover, are taken out to benefit the client and they must be alive to claim. This means that critical illness cover is a suitable recommendation for individuals with no dependants but with a mortgage or other debts.

- Critical illness causes clients and their families emotional stress in addition to the physical or mental distress and pain. Reducing the financial burden gives them one less thing to worry about at a vulnerable time.
- Critical illness causes financial hardship. Even if a client's income is protected by an employer's scheme or income protection insurance, there is likely to be less disposable income available plus additional expenses, for example, the costs of travel to hospital, childcare, home modifications.
- Critical illness affects a client's lifestyle. The in-flow of money maintains a person's or couple's lifestyle or businesses profits. A critical illness will disrupt cashflow and limit lifestyle choices.

Critical illness cover – who needs it and why?	
Key scenarios	Uses for critical illness cover
Couples with no children	Pay off a mortgage or other debts to offset the effect of losing one income, whether temporarily or permanently.
Couples with children	<p>Pay off a mortgage or other debts to offset the effect of losing one income, whether temporarily or permanently.</p> <p>Help pay for additional costs associated with children, for example extra food costs, school fees and children's activities, effectively 'keeping things normal' for the children.</p> <p>Children's cover is a useful add-on benefit.</p>
Single people with no dependants	Pay off a mortgage or other debts, which is vital as there is no second income to fall back on.
Business owners/partners	Offset negative effect on business if the business owner or partner is incapacitated for a period of time.
Key individuals	<p>Compensate for the potential loss of profits if a key individual with important sales skills or technical skills is away from the business for any length of time.</p> <p>To offset the cost of replacing these skills.</p>
Sole traders	Offset loss of income to the individual/family.

Critical illness vs income protection

While a critical illness benefit can alleviate financial hardship by reducing expenses by, for example, paying off an expensive mortgage or loan, it is important not to position it with clients as a replacement or alternative to income protection insurance.

First, critical illness pays out only if the client is diagnosed with one of the predefined critical conditions in the policy, whereas income protection pays out if he or she cannot work whatever the cause might be. As most long-term sickness or disability is due to back problems and mental health issues, which are not covered by critical illness policies, a client with just critical illness cover would not be well served by such a recommendation.

Second, in order for a client to use the lump sum payout from a critical illness policy to generate income, they would need to achieve a sufficiently high rate of return and have a sufficiently large sum assured to invest. According to figures from the re-insurance industry, the average critical illness sum assured is approximately £200,000, but as many as 65% of policies have sums assured lower than £100,000.

These amounts are simply not sufficient to replace income. Assuming a generous return of 5% per annum, a sum assured of £100,000 would generate just £416 per month, which represents only a quarter of average net monthly income of £1,800.

Income protection and critical illness are complementary covers and have specific uses. The former replaces income for temporary or permanent absences from work, dealing with debt payments and household bills, while the latter helps maintain lifestyle in the face of the effects of serious ill health.

IO The strength of a critical illness recommendation lies in the ability of critical illness to maintain lifestyle over and above the subsistence level of cover afforded by the State or the basic income needs addressed by income protection OI

How to make the risk real

Unfortunately, most people are either unaware of their financial vulnerability in the event of ill health, choose not to think about it or simply do not believe it will ever happen to them. Further, many people still mistakenly think that the State will adequately provide for them if the worst happens.

Advisers can ask clients to outline their financial plans and then ask them what, if anything, might disrupt those plans. Should clients refer to ill health as a potential spoiler, they have effectively established the need for themselves.

Who would pay:

- The mortgage?
- The monthly food bill?
- For the special equipment/requirements (ramps, door-widening, perhaps drugs)?
- For adapting your car or purchase of a new car?
- For continued nursing?
- The school fees?
- The medical insurance?

If they are stumped, simple questions to clients along the lines of “who would pay.....?” and “what would happen if.....?” are traditional ways to establish the need for most insurance products, and are relevant for critical illness cover.

What would happen if you:

- Suffered a heart attack/a serious form of cancer/a stroke/MS?
- Weren't able to pay the mortgage? What would you do if you lost your home? How would you feel about that?
- Weren't able to pay for the children to:
 1. go on holiday?
 2. go to the cinema with their friends?
 3. have a decent school uniform?
 4. have the internet at home?
 5. maintain a mobile phone?
 6. have new shoes, etc?

IO A reality check for clients is to remind them that if their house contents were uninsured and lost, they might have a bill of hundreds of pounds, perhaps thousands. However, if they suffered a critical illness they may need considerably more to maintain or adjust their lifestyle to their new circumstances OI

Ranking financial risks

In a financial planning consultation, clients should be helped to rank their major risks in order of importance. Hopefully, they will regard their household expenses and activities as important – but very often it is one of the few areas they haven't considered.

What's most important?	Is it insured?
My car	✓
My house	✓
My possessions	✓
My holiday plans	✓
My dog/cat	✓
My central heating	✓
My health	x

Three-quarters of parents have car and/or home contents insurance and two-thirds have buildings insurance³. By contrast, less than half of parents have life assurance and less than a quarter have critical illness cover. 15% of people are likely to insure their pets whereas only 7% are likely to insure their income⁴.

Up-sell with life assurance

Not only is standalone critical illness a suitable product for those with no dependants who may not therefore need life assurance, but cover is an obvious add-on to life assurance arranged to cover a mortgage. One of the major objections people may have about it is that it seems expensive. The best way to handle this is to compare its cost to other insurance products that people willingly pay for. Car insurance is a useful example because people are familiar with the concepts of 'third party' and 'fully comp'.

When asked, the vast majority of people will have a fully comprehensive policy, even though most may not need to. This then begs the question why they have their car insurance on a fully comprehensive basis, while their life and health insurance is 'third party'.

Lifestyle protection

Arranging sufficient critical illness cover to pay off a mortgage or other debt would achieve a basic level of stability for someone afflicted with a serious illness; however, making an income protection recommendation to meet basic regular needs, and positioning critical illness as the way to address lifestyle needs presents the opportunity to sell larger sums assured.

Children's cover

Promote the children's critical illness benefit to clients who have children. When a child suffers a critical illness, it is not only of emotional significance, but it also has a financial impact on the family, particularly if one or more parents has to give up work to care for the sick child. Children's cover on critical illness policies is a valuable benefit, accounting for a significant number of claims each year, in some cases as much as 5% of claims.

³ Research by Nationwide Building Society, 2011

⁴ Scottish Widows, May 2011

The relationship with other protection products

Menu plans are a popular and welcome innovation in the life and protection market and have transformed the way in which protection business is written. Used properly, they can help secure more business for advisers and provide better, more comprehensive cover for clients.

Typically, a menu plan incorporates three or more distinct cover options within one plan. These are usually term assurance, critical illness cover and income protection insurance.

Most plans allow the term assurance to be set up on a level or decreasing basis with accelerated critical illness cover. The decreasing basis has obvious application to the protection of capital and repayment mortgage debt. Family Income Benefit is less commonly offered, which is a pity. We favour the development of propositions that provide the appropriate type of benefit depending upon the circumstances of need. Family Income Benefit pays a regular income rather than a lump sum and this is often more suitable for replacing the income of the deceased partner.

Additionally, a menu plan can incorporate a number of other covers. For example, a number of providers also offer accident, sickness and unemployment cover (ASU). This is usually offered via an arrangement with a general insurer in the group and complements the long-term sickness and disability cover afforded by income protection.

Many menu plan providers now issue an annual statement setting out what covers the client has and the level of the benefits. This represents an ideal opportunity to review the clients' needs and increase the sums assured or add in other benefits accordingly as circumstances change or affordability improves.

Key benefits of menu plans

- Saves the adviser time as only has to deal with one insurer;
- Slicker administration benefits adviser and client;
- Client and advisers only have to complete one application form for all their covers and a single policy fee. If a client chooses to add another after inception, provided this is within a certain period of time, typically 12 months, they can usually do so by completing a short form.

Our research shows that those writing upward of 75% of their business via menu plans increased from 4% in 2009 to 12%. At the same time, those that said they write no business via menu plans decreased dramatically from 47% to 35%.

While menu plans continue to increase in popularity with advisers, it is perhaps surprising that more do not embrace the menu plan concept. Some advisers, seeing product research as a key part of their role, may feel obliged to identify better deals with alternative providers for some of the covers needed rather than selling what they see as a 'packaged product'. However, adopting a price-driven model deprives the market of value and potentially means that the customer does not get the types of cover and levels of cover they need.

Used properly, menu plans can increase sales and provide a better range of cover for clients. Having ascertained budget, advisers can quote for life assurance, critical illness and income protection insurance under a menu plan. If clients want to reduce the cost, they can discuss scaling back some of the benefits but at least they will have all three essential covers.

This approach to protection advice using a menu plan proposition is an excellent way to deliver cover to those who need it and avoids the danger of one cover being discounted in favour of the others.

IO A holistic approach to protection advice using menu propositions represents a business opportunity for the adviser; it is a high value proposition and is an effective way of addressing all a client's needs OI

Critical condition definitions

Setting aside the flexibility features of a protection plan, which are nevertheless very important, the main consideration when selecting a critical illness plan for a client is the extent of the critical conditions and procedures covered. The following sections provide a brief description of the main critical conditions covered and highlight the key issues relating to each, assessing their potential value to the end consumer.

Key considerations

- Read the latest Statement of Best Practice for Critical illness from the Association of British Insurers (ABI).
- Be clear to clients what is and what is not covered by critical illness. for example, if clients can't work, they are not necessarily covered by critical illness cover; they may have cancer but unless it is serious they will not be able to claim.
- If necessary, choose policies that incorporate premium discounts where heart attack or cancer cover is excluded.
- Consider policies with buy-back to ensure clients remain covered even after a claim.
- Encourage clients to be open and honest when completing the application or answering health and lifestyle questionnaires online or by telephone.

Incidence and prevalence

When describing how common a particular disease is, the terms 'incidence' and 'prevalence' are frequently used. The incidence, or incidence rate, is the rate at which a disease occurs in a population in a time period, for example, 0.1 in 10,000 per year. Prevalence means the prevalence proportion and gives a figure indicating how many are affected by the disease at a single point in time.

Both these terms give a clue as to how likely it is that people will be diagnosed with a particular illness; however to what extent the incidence and prevalence translate into critical illness claims is also dependent upon other factors.

Claims data

A high incidence rate does not necessarily mean that there will be a high number of claims. First, incidence rates for the insured population (people aged between 20 and 60, for example) are difficult to come by but will typically be lower for many conditions than the rates for the whole population. Second, in order to balance risk, insurers may apply specific age limits to filter out higher risk age groups.

Finally, the definitions may be framed in such a way as to admit only the most severe of cases. Just because a client gets cancer, for example, it doesn't mean that will be able to claim on their critical illness policy. It is incumbent on advisers to manage expectations and sell critical illness on that basis.

ABI model wordings

The ABI's Statement of Best Practice for Critical Illness Cover, last updated in April 2011, sets out how providers should describe their contracts in consumer literature. It includes model wordings for 23 of the most commonly available critical conditions.

Providers that are members of the ABI and offer critical illness cover are obliged to use these wordings or better ones. For the purposes of the Statement of Best Practice critical illness cover is defined as a policy paying a benefit on the diagnosis of cancer, heart attack or stroke.

It is important to remember that these 23 conditions are not an 'ABI approved' list and do not represent a benchmark standard, they are simply those conditions most commonly offered

Alzheimer's disease

Alzheimer's disease is the most common cause of dementia. It causes 'plaques' and 'tangles' to form in the brain tissue, resulting in the death of brain cells leading to the typical symptoms of dementia: memory loss, mood swings and problems with communication and reasoning.

Prevalence:

1 in 1,400 (ages 40-64); 1 in 100 (ages 65-69)

Average claims: 0.23%

ABI model wording: Yes

The model wording requires a definite diagnosis of Alzheimer's disease by a consultant, neurologist or geriatrician evidenced by a permanent clinical loss of the ability to remember, reason, and perceive, understand, express and give effect to ideas. Insurers are permitted to include a maximum age for cover.

The majority of providers cover Alzheimer's disease; BHSF, Chartis Direct and HSBC do not. Forester Life, NatWest Life and Royal Bank of Scotland apply a maximum age of 60 and Aviva, St Andrews Life, NFU Mutual and Zurich Assurance apply a maximum age of 65.

Whilst claims are low, the Alzheimer's Society reports that dementia is steadily increasing and Alzheimer's disease is the most common form, accounting for 62% of cases.

Angioplasty

Angioplasty is an endovascular technique to dilate narrowed arteries. A catheter with a small inflatable balloon is passed into the affected artery via a vessel in the groin or arm. The balloon is then inflated to widen the artery and in some cases to position a stent to prevent re-narrowing.

Prevalence: 91.2 in 100,000

Average claims: 0.52%

ABI model wording: No

Just Bupa, Direct Line and PruProtect cover angioplasty. Bupa and Direct Line require there to be at least 70% narrowing of the arteries to qualify; PruProtect pays out just 10% of the sum assured regardless of the number of arteries blocked or the extent of the narrowing.

Coronary artery disease is the most common form of heart disease in the modern world and since 1990 angioplasty has increasingly been used to treat it. According to the Organization for Economic Co-operation and Development (OECD) Health Data 2009, in the UK 67% of revascularisation is undertaken by angioplasty.

Aorta graft surgery

The aorta is the large blood vessel that carries oxygenated blood from the heart to the rest of the cardiovascular system. Aorta graft surgery is a procedure to repair a part of the abdominal or thoracic aorta. Disease can cause a narrowing of the aorta due to the build up of fatty deposits or a thinning and bulging of the artery wall, known as an aneurysm, which can rupture if left untreated.

Average claims: 0.09%

ABI model wording: Yes

The model wording covers surgical grafts to both the thoracic and abdominal aorta but excludes endovascular techniques and surgery following trauma. All but BHSF, Chartis Direct and HSBC Life cover aorta graft surgery and most providers cover both disease and trauma. In reality, trauma to the aorta such that surgery is required is very serious and death is likely to occur before surgery can be undertaken.

There were some claims in 2010, but the occurrence of this procedure in the insured population is quite low. According to the NHS (HES Online) in 2010, there were just 9,000 admissions to hospital for aortic procedures. Most of them related to people in the age ranges 60–64 and 70+. Just 1,245 cases were in the age range 15–59.

Aplastic anaemia

Aplastic anaemia (or bone marrow failure) is mainly caused by an auto-immune disorder where the white blood cells attack the bone marrow. Bone marrow produces red blood cells, white blood cells and platelets. The disease results in anaemia, the reduced red cell count in the blood; neutropenia, a low white cell count; and thrombocytopenia, a low platelet count.

Average claims: 0.03%

ABI model wording: No

There are broadly two definitions used in the market. Less than half of providers simply require a definite diagnosis by a consultant haematologist of permanent bone marrow failure, which results in anaemia, neutropenia and thrombocytopenia. The majority also require treatment with a blood transfusion, marrow stimulating agents, immunosuppressive agents, or bone marrow transplant.

PruProtect has a specific definition for advanced aplastic anaemia under its cancer benefit, requiring a 10% reduction in white blood cells and platelets and 50% reduction in red blood cells.

The disease is rare, with an annual incidence of two per million of population, however acquired aplastic anaemia is most common in the age range 15–25. So it is a potential risk to those in the insured age group.

Bacterial meningitis

Meningitis is caused when the lining of the brain and spinal cord, the meninges, become inflamed, usually as a result of an infection. The most common cause of this meningitis is meningococcal and pneumococcal bacteria.

Incidence: 2-5 per 100,000

Average claims: 0.25%

ABI model wording: No

Most definitions require a definite diagnosis of the disease and permanent neurological deficit with persisting clinical symptoms. Other forms of meningitis (e.g. viral) are typically specifically excluded.

Not all providers offer this cover, although a little over half do. Two providers, NatWest Life and Royal Bank of Scotland, offer it just for children's critical illness cover.

According to Meningitis UK, around 3,000 people in the UK are affected by all types of bacterial meningitis each year, of which one in 10 die. Of those who survive, one in seven will be left with a permanent damage. Babies are most at risk, followed by young people in the age range 14-24. This means that while the disease is not likely to affect those in the insured population it does have value in relation to children's critical illness benefit.

Balloon valvuloplasty

This procedure, similar to angioplasty, is used to treat heart valve stenosis. The mitral and aortic valves particularly can become narrowed, restricting the flow of blood from the heart. A catheter with a balloon is inserted into the heart via an artery to dilate the defective heart valve.

Prevalence: 5 in 10,000

Average claims: None

ABI model wording: No

Mitral valve disease affects approximately 5 in 10,000 people, mainly affecting women, and it increases with age.

Recovery times for treatment of such conditions with endovascular techniques is short, therefore there is little disruption to the patient's financial wellbeing. Consequently, only two providers offer cover: Direct Line and PruProtect. PruProtect offers just 15% of the sum assured.

Benign brain tumour

Benign brain tumours grow slowly and do not invade the brain tissue. However, they can grow quite large, creating pressure on the delicate brain tissue. This may cause symptoms that require treatment. If benign tumours occur in glands, they can cause the gland to produce excessive amounts of hormone, which can cause symptoms requiring treatment.

Incidence: 7.5 per 100,000 per year (US)

Average claims: 1.55%

ABI model wording: Yes

The model wording is designed to cover the symptoms resulting from the presence of the tumour rather than the tumour itself and requires permanent neurological deficit with persisting clinical symptoms. The wording specifically excludes problems resulting from tumours in the pituitary gland and angiomas. Approximately half those that cover benign brain tumours will also pay out if the tumour has to be surgically removed regardless of the presence of continuing symptoms. This is marketed by providers as 'ABI+'.

After heart attack, cancer, stroke and multiple sclerosis, benign brain tumour is a major cause of critical illness claims and all providers cover it except Chartis Direct and HSBC.

Blindness

According to research carried out for the Royal National Institute for the Blind, about two million people in the UK have significant sight loss. Blindness is a common condition and on average 100 people start to lose their sight every day.

Average claims: 0.03%

ABI model wording: Yes

The model wording defines blindness where visual acuity (VA) is 3/60 or less. VA is tested using a Snellen chart and expressed in the form of two numbers. 3/60 means that at three metres the patient can only read numbers on the chart that should be read from 60 metres away.

There are an insignificant number of critical illness claims for blindness. The most common causes of blindness are macular degeneration and diabetic retinopathy. Both these conditions do not tend to cause blindness until later life.

All providers cover blindness except BHSF, Chartis Direct and HSBC Life.

Cancer

Cancer is the term used to describe a group of cells that grows uncontrollably beyond normal limits and invades and destroys adjacent tissue. It may also spread via the lymph or blood to other parts of the body.

Incidence: 504 per 100,000 per year

Average claims: 60%

ABI model wording: Yes

The model wording covers advanced cases of cancer only citing any malignant tumour characterised by uncontrolled growth of malignant cells and invasion of tissue. The model wording also clearly sets out less advanced cancers that do not qualify. From summer 2010, the model wording clearly states that the term malignant tumour includes leukaemia, sarcoma and lymphoma except cutaneous lymphoma.

According to Cancer Research UK, around 309,500 people were diagnosed with cancer in the UK in 2008; this equates to around 504 cases for every 100,000 people. Four types – breast, lung, bowel (colorectal) and prostate – account for over half of all new cases. Most cases of cancer are in older people and the most common cancers, breast cancer in women and prostate cancer in men, are not covered unless they have progressed to a severe state.

This underlines one of the problems with critical illness cover, namely that policyholders believe they are covered for cancer whatever the severity and this has been a cause of many complaints. It is important that clients are aware of the limitations of the cover as well as the benefits.

PruProtect has addressed this problem with its severity-based definitions, which effectively allow policyholders to claim a reduced benefit for less severe cases. Additionally, a number of providers offer separate mastectomy and prostate cancer cover.

Cancer is a major reason to consider critical illness cover and underlines the importance of this cover. Along with heart attack and stroke, cancer is one of the critical illnesses that defines a critical illness policy under the ABI guidance.

Cancer (continued) — mastectomy

Mastectomy is the complete or partial removal of one or both breasts. It is the main local treatment for breast cancer in women and occasionally men, as opposed to other general treatments such as chemotherapy or radiotherapy.

Average claims: 0.22%

Just 14 providers cover mastectomy and eight cover prostate cancer. All offer partial payments as set out in the table above. PruProtect also pays 10% of the benefit for lumpectomy. Bright Grey and Scottish Provident cover mastectomy, partial mastectomy, segmentectomy or lumpectomy under their Ductal carcinoma in situ definition.

Provider	Mastectomy	Prostate cancer
Ageas	Max £25,000	No
Barclays	Max £25,000	No
Bright Grey	Max £15,000/20% SA	Max £15,000/20% SA
BHFS	No	Max £24,000
Bupa Individual Protection	Max £12,500	Max £25,000/25% SA
Chartis	No	Max £50,000
Friends Life	Max £15,000/20% SA	Max £15,000/20% SA
Friends Provident	Max £15,000/20% SA	No
Legal & General	Max £25,000	No
LV=	Max £25,000/25% SA	Max £25,000/25% SA
Nationwide Building Society	Max £25,000	No
PruProtect	Max 25% SA	Max 25% SA
Sainsbury's Finance	Max £25,000	No
Scottish Provident	Max £15,000/20% SA	Max £15,000/20% SA

*SA = Sum assured

Cancer (continued) — prostate cancer

The majority of men with low-grade, early prostate cancer (which means that cancer cells have been found only in the prostate gland) live a long time after their diagnosis. According to Cancer Research UK, an important risk factor is age; very few cases are registered in men under 50 and around three-quarters of cases occur in men over 65 years. The largest number of cases is diagnosed in those aged 70-74.

Other specific cancer covers

Bupa has partial payment cover for carcinoma in-situ of the cervix uteri requiring hysterectomy (partial payout) and PruProtect offers cover for carcinoma in situ of the oesophagus.

Cardiomyopathy

Cardiomyopathy is a disease of the heart where the muscle of the heart is abnormal without there being an obvious cause restricting its function. Hypertrophic cardiomyopathy (HCM) is an excessive thickening of the heart muscle. Dilated cardiomyopathy (DCM) is where the heart becomes enlarged and weak. Restrictive cardiomyopathy (RCM) is where the walls of the heart become stiff. Arrhythmogenic cardiomyopathy (ARVC) is an inherited condition where the muscle is replaced with fibrous and fatty tissue, which can result in dilation of the heart, causing it to weaken.

Average claims: 0.15%

ABI model wording: No

A little over half of providers cover cardiomyopathy. Those that do have definitions that relate to the reduced capacity of the heart to pump blood around the body, typically referring to ventricular ejection fractions of either 35% or 40% or citing impairments to Stage III or IV under the New York Heart Association Functional Classification.

In contrast to coronary heart disease, which has a higher incidence in the elderly, cardiomyopathy can occur at younger ages.

Coma

Coma is a profound state of unconsciousness, which can be the result of intoxication, head trauma and diseases of the nervous system. The underlying cause is damage to the reticular formation of the midbrain, which regulates sleep patterns.

Average claims: 0.14%

ABI model wording: Yes

The model wording requires that coma results in permanent neurological deficit with persisting clinical symptoms and also requires the use of a life support system for a continuous period of at least 96 hours. The model wording also excludes coma secondary to drug or alcohol abuse.

Most providers cover coma and the majority dispense with the requirement for 96 hours on life support. AEGON does not exclude coma induced by alcohol and LV= does not exclude coma induced by alcohol or drug abuse.

Coronary artery bypass

The build up of fatty deposits in the arteries supplying the heart muscle, causing the arteries to narrow and depriving the heart of oxygen. This causes pain in the chest, known as angina, and can lead to death from a heart attack. Coronary artery bypass grafts involve replacing the narrowed artery or arteries with a section of vein or artery from another part of the body.

Average claims: 1.75%

ABI model wording: Yes

The model wording specifies median sternotomy (surgery to divide the breastbone).

Most providers cover coronary artery bypass; a little less than half do not enforce the requirement for median sternotomy, which effectively means they would pay out if the procedure was undertaken by keyhole surgery. Typically, they exclude endovascular techniques.

In 2010, there were 21,000 coronary artery operations. Most of them related to people over 60; less than a third applied to younger age groups. Nevertheless coronary artery bypass accounts for a significant number of critical illness claims.

Creutzfeldt-Jakob disease (CJD)

CJD is a fatal disease of the central nervous system that damages the brain. Initial symptoms are depression, anxiety and delusions. Further symptoms follow as the person's nervous system continues to worsen.

Average claims: None

ABI model wording: No

The most common form, sporadic CJD, accounts for 87% of CJD cases. It affects people over 40. In 2010, 80 people died of sporadic CJD in the UK. New variant CJD mainly affects people in their mid 20s and is generally accepted to be caused by the prion that causes bovine spongiform encephalopathy (BSE) in cattle, having entered the human food chain via infected meat.

Cases of variant CJD seemed to have peaked during the years from 1996 to 2003. In 2000 there were 28 deaths from variant CJD, while there were only three in 2010⁵.

Two-thirds of providers cover CJD. Most simply require a definite diagnosis of the disease, while some also require evidence of deterioration, for example not being able to remember, reason or give effect to ideas. This is a rare disease and we are not aware of any critical illness claims.

⁵ The National Creutzfeldt-Jakob Disease Research & Surveillance Unit

Crohn's disease and ulcerative colitis

Crohn's disease is a form of inflammatory bowel disease (IBD). It can affect any part of the digestive system from the mouth to the anus and cause inflammation of all layers of the lining of the bowel. By contrast ulcerative colitis, another form of IBD, affects only the colon (large intestine), causing inflammation of just the inner lining. In severe cases surgical resection may be required to remove the affected parts of the intestine.

Incidence: 6.7 per 100,000 per year

Prevalence: 140 per 100,000

Average claims: N/A

ABI model wording: No

Only Bupa and PruProtect cover Crohn's disease specifically. Bupa pays a reduced benefit where Crohn's disease is diagnosed and the insured has undergone intestinal resection. The full sum assured is paid for severe Crohn's disease, where there is fistula formation and intestinal strictures and where two or more bowel segment resections have taken place. PruProtect pays 50% of the benefit for severe Crohn's disease, requiring only one resection, and 10% for less severe forms.

Bupa also covers ulcerative colitis where it is treated with total colectomy (removal of the entire bowel) subject to a partial payment.

According to Patient.co.uk the incidence for Crohn's disease is 6.7 (range 1.6 to 14.6) cases per 100,000 annually and the prevalence is 140 (range 10-199) cases per 100,000. The onset of Crohn's disease has a bimodal distribution. The first and largest peak occurs between the ages of 15-30 years; the second much smaller peak is between 60-80 years. It is a debilitating condition and occurs in the insured population. Severe forms have been responsible for claims under TPD in the past and so it has value to critical illness cover.

Deafness

Most deafness is caused by damage to the hair cells in the inner ear as a result of exposure to loud noise, some prescribed drugs and the effects of old age.

Average claims: None

ABI model wording: Yes

Hearing loss is represented on an audiogram. The threshold of hearing for a normal ear is between -10dBHL and 15dBHL. The model wording defines deafness at a threshold of 95dBHL.

According to the UK Council on Deafness, nine million people in the UK suffer from deafness or experience significant hearing difficulty, which is one in seven of the population.

While much deafness is age related, with 55% of people over 60 being deaf or hard of hearing, congenital defects, noise at work and noisy leisure activities also cause long-term hearing damage.

All providers, except BHSF, Chartis Direct and HSBC Life cover deafness, using the ABI model wording.

Diabetes

There are two conditions referred to as diabetes: diabetes mellitus and diabetes insipidus. Diabetes mellitus describes the condition where the amount of sugar in the blood is too high due to a lack of insulin. Diabetes insipidus is an unrelated condition where increased amounts of urine are passed because the body cannot retain water due to a lack of the hormone vasopressin.

Prevalence: Diabetes mellitus 4%

Average claims: <1%

ABI model wording: No

There are two types of diabetes mellitus. Type 1, which accounts for 5–15% of cases, occurs when the body cannot produce any insulin. It usually affects people under the age of 40. Type 2 occurs when the body produces insufficient levels of insulin. It is the most common form and is linked to obesity. Traditionally, this type usually appears in people over 40 but more recently children as young as seven have been diagnosed.

According to Diabetes UK, there are currently more than 2.6 million people with diabetes in the UK and there are more than half a million people with diabetes who are unaware they have the condition.

Only Bupa covers diabetes mellitus. Its definition covers diagnosis after the age of 40, effectively excluding Type 1 cases.

PruProtect covers diabetes Insipidus subject to a partial payment. This condition is much less common than diabetes mellitus and care should be taken not to confuse the two.

Encephalitis

Encephalitis is an inflammation of the brain usually caused by a viral infection or an auto-immune reaction. The most common cause is infection by the herpes virus. If inflammation of the brain lining also occurs it is referred to as meningoencephalitis. Viruses causing encephalitis can be acquired from insect bites, for example, St Louis virus and West Nile virus.

Incidence: 4 per 100,000

Average claims: 0.04%

ABI model wording: Yes

According to the Health Protection Agency, the estimated annual incidence of encephalitis in the UK is 4 per 100,000 but infections are most frequent and severe in children and the elderly. This has implications for children's critical illness; however less than half of providers cover encephalitis.

Typically, the definitions used specify a definite diagnosis, resulting in permanent neurological deficit with persisting clinical symptoms. To aid clarity, some providers specifically exclude other conditions with similar symptoms, for example chronic fatigue syndrome (ME).

Heart attack

Heart attack, or myocardial infarction, is the death of part of the heart muscle due to oxygen starvation. This is usually due to a blood clot forming in a narrowed coronary artery. Heart attack has to be covered for the plan to be classed as critical illness cover by the ABI.

Incidence: 207 in 100,000

Average claims: 10.2%

ABI model wording: Yes

The model wording requires death of heart muscle due to inadequate blood supply evidenced by all of three factors: typical clinical symptoms (e.g. chest pain), electrocardiographic changes, and the rise of cardiac enzymes or troponins. Other heart conditions are specifically excluded, for example angina.

It is widely accepted in the industry that the omission from the model wording of the requirement for 'typical clinical symptoms (for example chest pain)' results in an ABI+ definition on the grounds that it covers a 'silent' heart attack. However, this line was not included in the definition to exclude a silent heart attack but rather to add clarity to the definition and it is difficult to see a situation where someone receiving a definite diagnosis of myocardial infarction would be declined, whether or not they had chest pain. With the majority of providers preferring the 'enhanced' definition, it has ceased to be a differentiating factor.

Heart attack is a very important part of critical illness policies and all providers cover it.

According to the British Heart Foundation, the prevalence of heart attack is higher in men than in women. It estimates that one million men and nearly 500,000 women have had a heart attack, giving a total of over 1.5 million people in the UK. More than 900,000 of these people are under 75.

In England around 11% of men and 15% of women who were admitted to hospital with a heart attack in 2006 died within 30 days. This means that a significant number of people have a heart attack and survive, and would benefit from a critical illness payment because of their resulting inability to work. So heart attacks continue to present a significant risk to the insured population, making it a valuable cover. Heart attack is the second highest reason for critical illness claims.

Heart valve replacement or repair

Heart valve disease takes one of two forms: stenosis, where the valve narrows restricting the flow of blood, and incompetence, where the valve fails to close properly and allows blood to leak backwards. Heart valve surgery is undertaken to repair a damaged heart valve or replace it with a prosthetic valve.

Average claims: 0.57%

ABI model wording: Yes

As with the coronary artery bypass definition, the model wording specifies surgery to divide the breastbone. All providers cover it, except HSBC, and more than half market their definition as ABI+ because they omit the requirement for median sternotomy and, while excluding endovascular techniques, therefore permit keyhole surgery.

Legal & General and those providers selling Legal & General's product specify a requirement for anterolateral thoracotomy, which being the preferred surgery in many cases for this procedure, also represents a more generous position than the model wording. Similarly, Bupa specifies thoracotomy, defining it as keyhole surgery or median sternotomy. PruProtect pays 25% of the benefit for surgery to repair or replace a heart valve and 15% if endovascular techniques are used.

Mitral valve prolapse is the most common form of heart valve disease and is estimated to affect 2-6% of the population. Heart valve replacement or repair accounts for a significant number of critical illness claims.

HIV infection

The human immunodeficiency virus (HIV) attacks the body's immune system, rendering it susceptible to other infections and diseases such as tuberculosis, pneumonia and cancers. This is known as late stage HIV infection and is sometimes referred to as AIDS.

Average claims: None

ABI model wording: Yes

The model wording covers individuals where infection with HIV results from a blood transfusion, a physical assault or an incident at work in the UK. It excludes cover where infection results from sexual activity or drug abuse.

The insurer is permitted to specify a list of eligible occupations. Most providers list occupations associated with the medical profession, the emergency services and sometimes the armed services. Prison workers are sometimes included too.

According to Avert, the international AIDS charity, by the end of June 2010, 111,882 people in the UK were infected with HIV. Of those just 1,947 had been reported as infected through treatment with blood/tissue products. 87% of these were diagnosed before 2002, since when all such infections have been acquired outside the UK. The risk is therefore very small and there have been no known claims on critical illness policies.

Kidney failure

The kidneys perform an essential job of filtering excess fluid and waste products from blood so that they can be expelled as urine. Reduced kidney function is usually referred to as kidney failure when the kidneys are functioning at only 30%. Kidney failure is irreversible and usually requires dialysis to help filter the blood.

Incidence: 1 per 10,000 per year

Average claims: 0.31%

ABI model wording: Yes

The model wording requires end-stage failure of both kidneys resulting in regular dialysis in order to trigger a claim. However, according to Kidney Research UK, while 6–8 per 10,000 people rely on dialysis for survival, only one per 10,000 reaches end-stage kidney failure each year. Also, the average age for someone with the condition is 77, well outside the scope of most critical illness policies.

Liver failure

There are many liver disorders including viral hepatitis, auto-immune hepatitis, alcoholic hepatitis and inherited conditions that damage the liver. When liver cells die, the liver can re-grow to its original size and shape. However, long-term continuous liver damage gives rise to excessive scar tissue described as cirrhosis, which impairs function.

Average claims: 0.03%

ABI model wording: No

Most providers that cover liver failure use a definition requiring a definite diagnosis, by a consultant physician, of irreversible end stage liver failure due to cirrhosis resulting in permanent jaundice, ascites (accumulation of fluid in the peritoneal cavity) and encephalopathy (affecting the brain).

All except Zurich exclude liver failure secondary to alcohol or drug abuse.

According to the Office for National Statistics, liver disease is the fifth biggest killer in the UK; 15,203 people in the UK died from liver disease in 2007. It is also the only major cause of death still increasing year on year. Twice as many people now die from liver disease as in 1991.

Given that people can survive with 70% liver damage, and that there is a substantial burden of morbidity from liver disease, it suggests that the condition has to be very severe to trigger a claim.

Loss of hands or feet

Average claims: None

ABI model wording: Yes

The model wording requires two or more hands or feet to be severed. However, the incidence of double amputations in the UK is rare. According to the National Amputee Statistical Database, of the 4,574 referrals to prosthetic services in 2006/7, 4.8% concerned double, triple, quadruple or cross site amputations. The likelihood of successful claims under the current model wording is therefore quite low.

Eight providers offer more comprehensive cover, for the loss of just one hand or foot (marketed as ABI+): Ageas, Barclays, Bupa, Friends Life, Legal & General, LV=, Nationwide and Sainsbury's Finance. PruProtect offers the full benefit for loss of hands or feet and a 50% payout for loss of a single hand or foot.

Loss of independent existence

Average claims: None

ABI model wording: Yes

This cover overlaps with the cover for a number of other degenerative conditions such as Alzheimer's disease and pre-senile dementia. Also, where TPD cover is offered at no extra cost, there would appear to be little value to this cover.

Traditionally, TPD operated up until retirement age and loss of independent existence (LOIE) kicked in after retirement, although in recent years some of the boundaries have become blurred. Following the introduction of the new activities of daily living (ADL) and activities of daily work (ADW) definitions for TPD, providers will be able to address this scenario within the TPD benefit, rendering LOIE unnecessary.

At this time, 11 providers offer LOIE, the majority throughout the term of the contract.

Loss of speech

Average claims: 0.03%

ABI model wording: Yes

The model wording specifies the irreversible loss of the ability to speak as a result of physical injury or disease.

Many of the diseases that can result in the permanent and irreversible loss of speech, such as Alzheimer's disease and various cancers, are generally covered under other conditions. Claims made under this condition are more likely to result from some physical injury and will be quite rare.

Major organ transplant

Average claims: 0.14%

ABI model wording: Yes

The model wording specifies transplant of bone marrow or of a complete heart, kidney, liver, lung or pancreas, or inclusion on an official UK waiting list. Any other transplants are excluded.

One of the reasons critical illness insurance was developed in the first place was to provide funding for major organ transplants, principally heart transplants in South Africa. It is appropriate therefore that all providers offer this cover. Zurich has recently improved its definition to cover the transplant of part of the liver or lung.

According to the UK Transplant Activity Report, there were 3,706 transplants in the year 2009/10. Most of these were kidney transplants, of which there were 2,694, an 8% increase from 2008/9. There were 707 liver transplants, 272 heart related transplants and 214 pancreas transplants.

It continues to be an important element of critical illness cover. At 31 March 2010, there were 10,542 patients registered for an organ transplant in the UK, an increase of 2%, since 2009. This is less than the increases seen in previous years but those waiting for heart transplant increased by 34%.

Motor neurone disease

Motor neurone disease (MND) causes degeneration of the upper and lower motor neurons, the nerves that control the movement of muscles, resulting in muscle wastage. It is a progressive disease that eventually causes loss of mobility and problems with speech, swallowing and breathing.

Incidence: 2 in 100,000 per year

Average claims: 0.32%

ABI model wording: Yes

The model wording specifies a definite diagnosis of the disease by a consultant neurologist, and the condition must be permanent. The definition allows for a maximum age for cover.

All providers cover MND, except HSBC, and none apply a maximum age for cover. The condition is, however, rare. According to the Motor Neurone Disease Association its incidence is two in 100,000 per year. It can affect any adult at any age but most people diagnosed with the disease are over the age of 40, with the highest incidence occurring between the ages of 50 and 70.

Those with the disease have a typical life expectancy of three years, which is believed to be increasing. The benefit under a critical illness policy would therefore be a welcome resource for home modification and care. The number of people living with MND at any one time is approximately seven in every 100,000.

Multiple sclerosis

Damage to the protective sheath around the nerve fibres causes the messages between the brain and other parts of the body to become confused, giving rise to any number of disabling symptoms. Those affected may experience some or all of them at various times.

Prevalence: 140 per 100,000

Average claims: 5.03%

ABI model wording: Yes

All providers cover multiple sclerosis and use the model wording. It is an important cover and frequently accounts for the third-highest number of critical illness claims after cancer and heart attack.

According to the Multiple Sclerosis Trust, the average age of clinical onset is 30–33 and the average age of diagnosis is 37. Multiple sclerosis is the most common disabling neurological disease of young adults, affecting 85,000 people in the UK. This means it affects those in the insured population.

The prevalence rate in England and Wales is between 100 and 140 per 100,000, about 170 in Northern Ireland and as high as 190 in Scotland. In 2009, research by the London School of Hygiene and Tropical Medicine suggested that the total number of people with the disease was 100,000.

There is no accurate record of the number of new cases of multiple sclerosis being diagnosed each year; estimates based on factoring up local studies suggest about 2,500 new cases per year.

Open heart surgery

Open heart surgery requiring surgery to divide the breastbone (median sternotomy) is already covered under the model wordings for coronary artery bypass and aorta graft surgery. Those offering this separate benefit would cover surgery to correct or repair other heart problems.

Average claims: 0.12%

ABI model wording: No

A little over half of providers offer this cover and it complements their cover for other procedures for the heart. All apply a definition specifying surgery on the advice of a consultant cardiologist, to correct a structural abnormality of the heart. With the exception of Bupa, all require median sternotomy (surgery to divide the breastbone).

According to the Hospital Episode Statistics Online, there were over 260,000 admissions for heart operations in 2010. While just 11.5% of these related to heart valve and coronary artery procedures, the remaining 85.5% were in connection with other heart procedures. This means that open heart surgery is potentially a valuable cover.

Paralysis of limbs

Loss of muscle function of the limbs is due to damage to the motor nerves. Paraplegia is the paralysis of the lower extremities of the body, i.e. both legs. Congenital defects such as spina bifida are common causes, but in terms of critical illness insurance, the main risk is from spinal cord injury as a result of trauma. If the damage is higher in the spinal column, the arms may also be affected and this condition is known as tetraplegia.

Average claims: 0.09%

ABI model wording: Yes

The model wording refers to total and irreversible paralysis of two limbs; this points primarily to paraplegia.

All providers cover paralysis except St Andrews Life and HSBC. Additionally, Ageas, Barclays, Friends Life, Legal & General, LV=, Nationwide and Sainsbury's Finance offer cover for the paralysis of the whole of one limb, which is significantly better cover and marketed as ABI+.

This cover is a valuable benefit because unlike some conditions, which occur mainly in later life when critical illness cover has ceased, trauma in road accidents, for example, could occur to anyone at any time. According to the Spinal Injury Network, in the UK, two to three people every day become paralysed as a result of spinal cord injury. That is more than 700 each year adding to the 40,000 that are already paralysed.

Parkinson's disease

Parkinson's disease is a progressive neurological condition affecting movements such as walking, talking and writing. The parts of the brain responsible for co-ordinating movement cease to function properly due to reduced dopamine levels caused by a loss of dopamine producing cells.

Average claims: 0.91%

ABI model wording: Yes

The model wording requires a definite diagnosis of the disease by a consultant neurologist; it must be permanent and evidenced by tremor, rigidity of movement and postural instability. The model wording specifically excludes disease secondary to drug abuse and, since 2010, 'other Parkinsonian syndromes'.

Barclays, Bupa, L&G, LV=, Nationwide and Sainsbury's Finance do not exclude drug abuse. Zurich does not require postural instability as evidence of the disease.

The model wording permits a maximum age for cover to be included in the definition and, traditionally, providers' definitions have fallen in three groups: those with no maximum age, those that offer cover up to age 60 and those cover up to age 65. Almost all providers now do not stipulate a maximum age in their definition.

Multiple system atrophy

Ageas, Barclays, Bright Grey, Legal & General, Nationwide, Sainsbury's Finance, Scottish Provident and Zurich additionally cover multiple system atrophy (MSA). This is a degenerative neurological disorder, the symptoms of which include Parkinsonism and of which Parkinson's disease is just one form. MSA will therefore cover those people who have these debilitating symptoms but otherwise would not be able to claim under the Parkinson's disease definition.

Where 'other Parkinsonian syndromes' are excluded as per the model wording, MSA will complement the basic cover.

Pre-senile dementia

Dementia is the gradual loss of mental abilities such as thinking, remembering and reasoning. It is a group of symptoms that may accompany some brain diseases.

Incidence: 71 per 100,000 per year

Average claims: None

ABI model wording: No

Most providers covering dementia use wordings requiring a definite diagnosis by a consultant neurologist or geriatrician. The condition must be progressive and permanent and evidenced by the loss of the ability to remember, reason, perceive, understand, express and give effect to ideas.

This cover overlaps with Alzheimer's cover and may facilitate a claim where a more definite diagnosis is not available.

NatWest and Royal Bank of Scotland apply a maximum age for cover of 60, and Aviva and Zurich have a maximum age of 65. Other companies offering cover do not specify a maximum age.

According to NHS Direct, about one in 20 people over the age of 65 will develop some degree of dementia. This figure increases to about one in six people over the age of 85. Dementia can develop in younger people, but is less common, affecting about one in 1,400 of those under 65.

Primary pulmonary hypertension

Pulmonary hypertension is increased pressure in the blood vessel from the heart to the lungs. This causes shortness of breath, fatigue, chest pain, dizzy spells and fainting and can become life threatening. When there is no known cause, it is referred to as primary pulmonary hypertension (PPH).

Average claims: None

ABI model wording: No

The definitions used by the providers offering cover typically require a definite diagnosis by a consultant cardiologist and define impairment as Class 3 of the New York Heart Association classification of functional capacity. Most exclude pulmonary hypertension secondary to another cause i.e. not primary.

As many as 15 providers offer this cover now. However, according to the British Lung Foundation, PPH is extremely rare, occurring in about two persons per million per year. We have no record of any claims so would conclude it has relatively little value.

Progressive supranuclear palsy

Progressive supranuclear palsy (PSP) is a brain disease characterised by the progressive death of neurons or nerve endings in the part of the brain that controls balance, movement, vision speech and the ability to swallow. There may also be behavioural changes.

Incidence: 5.3 per 100,000 (age 50+)

Average claims: None

ABI model wording: No

More than half of providers cover PSP using a similar definition. All require a definite diagnosis by a consultant neurologist and there must be permanent clinical impairment of eye movement and motor function. Additionally some providers specify tremor rigidity and postural instability.

According to PSP-Europe Association, it affects people in their 40s and above, the average age of onset being 62. The average life expectancy of a patient is some seven years. Research has confirmed an incidence for PSP across the UK of 5.3 per 100,000 of population for those over 50 and a prevalence of 6.4. Some neurologists consider this figure to be an underestimation. The symptoms are similar to those of Parkinson's disease and when there is not a clear diagnosis, the patient may be labeled as having 'Parkinson's Plus', which may account for the insignificant number of claims under this definition.

Pulmonary artery surgery

The pulmonary artery is the blood vessel that carries oxygenated blood from the heart to the lungs. Surgery is undertaken to replace a diseased part of the pulmonary artery with a graft from a vessel taken from another part of the body.

Average claims: None

ABI model wording: No

Six providers offer this cover: Direct Line, Zurich Assurance, Bright Grey, Royal London, Scottish Provident and Ageas.

Typically, the definition used requires median sternotomy (surgery to divide the breastbone) on the advice of a consultant cardiothoracic surgeon to excise and replace the diseased pulmonary artery with a graft. While the procedure is similar to that carried out on the aorta as defined under aorta graft surgery, according to HES Online, in 2010, there were 2,616 admissions for operations on the pulmonary artery and other great vessels, compared with almost 9,000 for aorta surgery. Therefore, the likelihood of claims is less.

Given the recovery time from surgery, people undergoing this procedure would definitely have a financial need, however it is not clear in how many cases surgery would be necessary; and endovascular techniques to correct pulmonary artery problems are excluded. We are unaware of any claims in 2010.

Rheumatoid arthritis

Rheumatoid arthritis is a chronic progressive and disabling auto-immune disease affecting the joints and tendons. It is characterised by inflammation in the thin synovial membrane that lines the joint capsule, the tendon sheaths and the sacs of fluid that allow the muscles and tendons to move smoothly over each other. The joints and inflamed tissues then become stiff, painful and swollen.

Prevalence: 660 in 100,000

Average claims: 0.25%

ABI model wording: No

Just four providers offer cover: Aegon, Bupa, Friends Life and PruProtect. Aegon has a definition requiring a definite diagnosis and for the disease to be widespread within the body. Bupa and Friends Life apply an ADL test. PruProtect bases the amount payable on a severity scale using the American College of Rheumatology criteria for the classification of rheumatic diseases.

According to the National Rheumatoid Arthritis Society, 0.7% of the population has rheumatoid arthritis and onset is generally between 40 and 60 years.

Some claims have been paid under this condition, and for severe cases there is definitely a financial need.

Severe lung disease

Chronic obstructive pulmonary disease (COPD) is a general term that includes two conditions: chronic bronchitis, a swelling of the small airways in the lungs; and emphysema, damage to the air sacs where gas exchange occurs. Both restrict breathing, reducing oxygen intake.

Average claims: None

ABI model wording: No

The definitions typically require a diagnosis of advanced stage emphysema or other chronic lung disease requiring continuous use of oxygen and reduced capacity, for example, FEV1 being less than 40% of normal, and vital capacity less than 50% of normal. Some providers require the patient to have been on oxygen for a period of time, for example six months.

According to research undertaken in 2003 by M Britton, severe lung disease is the fifth biggest cause of deaths in the UK; it is estimated there are three million people with COPD in the UK, of which 900,000 have been diagnosed.

The rate of COPD in the population is estimated at between 2% and 4%. The diagnosed prevalence of COPD is 1.5%. The prevalence increases with age, with an estimated prevalence of 10% in men older than 75. Most patients are not diagnosed until they are in their 50s.

Despite the high prevalence of COPD, there have been minimal numbers of claims; possibly because the conditions only reach the severity to qualify after cover has ceased.

PruProtect also covers fibrotic lung disease, conditions that reduce oxygen exchange due to scarring or thickening of the surface of the air sacs, specifically sarcoidosis, aspergilosis and fibrosing alveolitis.

Spinal tumours

To complement the cover for benign brain tumours, some policies cover tumours in the spinal canal. Primary tumours arise locally from the structures of the spine. Benign spinal tumours usually occur inside the membrane surrounding the spinal cord and nerves rather than the bony structures and can cause nerve disturbance if they grow large.

Incidence: 1.2 per 100,000 per year

Average claims: N/A

ABI model wording: No

Two providers cover this condition specifically: Bupa and PruProtect.

Bupa covers non-malignant tumours in the spinal canal, involving the meninges or the spinal cord, resulting in permanent neurological deficit with persisting clinical symptoms. PruProtect specifies particular named types of tumour, some of which can be malignant.

According to the Brain & Spine Foundation, about 750 primary spinal tumours are diagnosed annually in the UK. While secondary tumours are rather more common, they would be cancerous and outside the definitions.

Stroke

Stroke occurs when the blood supply to a part of the brain is cut off, usually by a haemorrhage, depriving the tissue of oxygen and destroying brain cells. This can result in impaired function of those parts of the body that are controlled by the damaged part of the brain.

Incidence: 33 per 100,000 per year (under 65)

Average claims: 6.29%

ABI model wording: Yes

Stroke is the third most common cause of death in the UK after heart attack and cancer. Consequently, these conditions together define critical illness cover.

The model wording refers to death of brain tissue due to inadequate blood supply or haemorrhage within the skull resulting in permanent neurological deficit with persisting clinical symptoms. It specifically excludes transient ischaemic attack (temporary 'mini stroke') and stroke as a result of trauma to the brain tissue.

All providers cover stroke. Friends Life, Bright Grey, Scottish Provident and Zurich market their definitions as ABI+ because they do not exclude stroke as a result of trauma.

According to the Stroke Association around 150,000 people in the UK have a stroke each year, one every five minutes. Further, it has a greater disability impact than any other chronic disease; more than 300,000 people are living with moderate to severe disabilities as a result of stroke. In terms of critical illness, stroke is therefore an important cover as those people that survive will have increased financial needs as a result of their condition. Although stroke is associated with older people, around a quarter of strokes happen to younger people. It is estimated that over 20,000 people under 65 have a stroke every year.

Systemic lupus erythematosus

Systemic lupus is an auto-immune disease that can affect the joints and every organ in the body. The body's natural defence mechanism, designed to destroy agents of infection, instead attacks the tissues of the affected organs, giving rise to inflammation. The disease is hereditary but is triggered by environmental factors like stress, sunlight or infection.

Incidence: 3.8 per 100,000

Average claims: 0.04%

ABI model wording: No

All except PruProtect have a definition requiring a definite diagnosis by a consultant rheumatologist and either lasting effects to the nervous system or lasting effects to the kidneys. PruProtect requires a diagnosis by a rheumatologist with severity-based payments.

According to Lupus UK, based on research done in the 1980s and early 1990s, the prevalence is 28 per 100,000 with new cases per year of 3.8 per 100,000. The disease is quite rare and there have been very few claims possibly because the disease usually starts in the teens and 20s so, at the time that many people take out cover, it may be a pre-existing condition.

Terminal illness

Traditionally, terminal illness cover was an option on life assurance products, which provided for an acceleration of the death benefit where the life assured was terminally ill and not expected to live for very long.

Average claims: 0.12%

ABI model wording: Yes

Terminal illness overlaps with many of the conditions included on critical illness policies and for this reason providers sometimes do not include terminal illness cover on their standalone products.

All providers base their definition on the model wording, which specifies life expectancy of no more than 12 months. However, due to the way the products are costed, the benefit that can be paid varies. Logically, if cover has been costed for a term of 25 years, for example, to pay an accelerated benefit in the last 12 months would be to effectively extend the term to as long as 26 years. However, most providers impose an 18-month moratorium, which effectively reduces the value of the terminal illness benefit still further. Those providers that have no restriction are offering a more valuable benefit.

From summer 2010, the ABI's new terminal illness definition specifies that a payout can be made if the insured has less than 12 months to live, but it permits insurers to limit that time period so that it doesn't extend beyond the end of the policy term, effectively creating a 12-month exclusion period. Given that many policies do not pay terminal illness claims within the last 18 months of a policy, this change may give rise to an improvement in terms.

Provider	Exclusion period
AEGON	12 months
Ageas	None
Aviva	18 months
Barclays	18 months
Bright Grey	12 months
Bupa	12 months
Direct Line	18 months
Forester Life	12 months
Friends Life	12 months
Friends Provident	18 months
HSBC Life	None
Legal & General	18 months
LV=	12 months

Provider	Exclusion period
Nationwide	18 months
NatWest Life	18 months
NFU Mutual	None
PruProtect	12 months
Royal Bank of Scotland	18 months
Royal London	None
Sainsbury's Finance	18 months
Santander	None
Scottish Provident	12 months
St Andrews Life	18 months
Tesco Bank	18 months
The Co-operative Insurance	None
Zurich Assurance	12 months or less

Third degree burns

Burns are caused by exposure of the skin to chemicals, friction, electricity, radiation and extreme heat and cold. Third degree burns are those where most of the epidermis is lost. The affected area is often not painful because the nerve endings have been destroyed. Hair follicles and sweat glands may also be lost due to complete destruction of the dermis. Skin grafts are often necessary to repair the damaged area.

Average claims: 2.89%

ABI model wording: Yes

The model wording specifies third degree burns that cover 20% of the body.

All except BHSE, Chartis Direct and HSBC Life cover third degree burns; 16 providers offer a definition that is better than that given in the model wording. Typically, in addition to covering severe burns that affect 20% or more of the surface area of the body, they also cover burns that affect 50% or more of the face and/or the head.

Traumatic head injury

Road traffic accidents, assaults, falls and accidents at home or at work are the most common causes of traumatic brain injury (TBI).

Average claims: 0.09%

ABI model wording: Yes

The model wording requires death of brain tissue resulting in permanent neurological deficit with persisting clinical symptoms. Such symptoms may be physical, cognitive or connected with behaviour and personality.

According to Headway, the brain injury association, more than one million people attend A&E because of head injuries each year and 135,000 will be admitted because of the severity of their injuries.

The implications for critical illness cover are that more people are surviving severe brain injuries and, generally having a normal life expectancy, there are an increasing number of survivors. According to Headway, it is estimated that across the UK there are over 500,000 people living with disabilities as the result of head injury. These people have an obvious financial need, and the payout from a critical illness policy or income protection policy would be very valuable to them. The cover is all the more valuable because traumatic head injury can affect anyone, not just the elderly; indeed those aged between 15 and 29 are three times more at risk.

Alcohol is a factor in over one third of traumatic brain injuries. Those providers that do not have a general exclusion relating to alcohol or drug abuse include a specific exclusion in their definitions.

In this respect, the providers that exclude neither alcohol nor drug abuse generally or specifically are providing better cover. Most providers do not now make this exclusion for traumatic head injury; those that do are Aviva, Friends Life, Direct Line, Foresters, and NFU.

Total and permanent disability (TPD)

People who are ill or disabled to the extent that they have neither the physical nor mental capacity to do their work or live independently are also covered under critical illness policies that cover TPD.

Average claims: 0.25%

ABI model wording: Yes

Since the publication of the latest Statement of Best Practice, the ABI now has five model wordings for TPD: own, suited and any occupation definitions, a 'work task' test and an 'activities of daily living' test.

The occupation-based wordings specify the permanent loss of the physical or mental ability through an illness or injury to do the material and substantial duties of the occupation in question, either the insured person's own occupation, a suited occupation or any occupation. An upper age limit for cover can be applied.

The task-based wordings specify just the loss of physical ability to do at least three of six specified tasks. The work tasks, which would typically apply people up to retirement, are walking, climbing, lifting, bending, getting in and out of a car and writing. The tasks related to the inability 'to look after yourself' (activities of daily living), which would normally be applied to those not in employment, are washing, getting dressed and undressed, feeding yourself, maintaining personal hygiene, getting between rooms, and getting in and out of bed.

The main purpose of the new wordings is to address the lack of clarity around TPD. While it accounts for approximately 3% of all critical illness claims, it is reported that as many as 55% are declined, principally because consumers do not understand what is covered. Providers are obliged to adopt the new wordings if they offer TPD within critical illness by December 2012.

The ABI is also producing educational material for advisers so that they can better position TPD with their clients so that they are clear what is and what is not covered under their policy.

It is questionable whether disability insurance based on a person's ability to do a job really belongs in a critical illness contract that is primarily for those diagnosed with specific critical conditions.

Advisers should include an income protection recommendation in their advice to clients to cater for long-term disability scenarios.

Total and permanent disability (continued)

Most providers currently offer an own occupation definition of TPD and an 'activities of daily living' test. Four providers, Aegon, Ageas, Bupa and Scottish Widows, require the condition to have existed for a specified period before a claim is paid, typically six months. None have adopted the 2011 model wordings as yet.

Total and permanent disability							
Provider	TPD basis	Own	Any	Any suited	ADLs	ADWs	Mental impairment
AEGON	Option	Yes	Yes	No	Yes	No	Yes
Ageas Protect (Real Life Cover)	Auto with CI	Yes	No	Yes	Yes	No	Yes
Ageas	Option	Yes	No	Yes	Yes	No	Yes
Aviva	Auto with CI	Yes	Yes	No	Yes	No	No
Barclays	Auto with CI	Yes	No	No	Yes	Yes	Yes
Bright Grey	Auto with						
CI	Yes	No	No	Yes	Yes	Yes	
Bupa	Option	Yes	No	Yes	Yes	Yes	Yes
Direct Line	Auto with CI	No	No	No	No	Yes	No
Forester Life	Auto with CI	No	No	No	Yes	No	No
Friends Life	Option	Yes	No	No	Yes	Yes	Yes
Friends Provident	Auto with CI	Yes	No	No	Yes	No	Yes
Legal & General	Auto with CI	Yes	No	No	Yes	Yes	Yes
LV=	Standalone	Yes	No	No	No	Yes	No
Nationwide	Auto with CI	Yes	No	No	Yes	Yes	Yes
NatWest Life	Auto with CI	No	No	No	Yes	No	No
PruProtect	Auto with CI	Yes	No	No	Yes	Yes	Yes
Royal Bank of Scotland	Auto with CI	No	No	No	Yes	No	No
Royal London	Auto with CI	No	No	Yes	Yes	Yes	Yes
Sainsbury's Finance	Auto with CI	Yes	No	No	Yes	Yes	Yes
Santander	Auto with CI	No	No	Yes	No	Yes	Yes
Scottish Provident	Option	Yes	No	No	Yes	yes	Yes
Scottish Widows	Auto with CI	Yes	No	Yes	Yes	Yes	Yes
St. Andrews Life	Auto with CI	No	No	No	Yes	No	No
Tesco Bank	Auto with CI	Yes	No	No	Yes	Yes	Yes
The Co-operative Insurance	Auto with CI	No	No	No	Yes	No	No
Zurich Assurance	Option	Yes	No	No	Yes	No	No

Other critical conditions

In addition to the 23 ABI defined critical conditions, there are other conditions to consider.

Children's critical illness cover

The extension of critical illness cover to the natural and adoptive children of the life assured is a valuable and successful element of critical illness policies. We calculate that on average 3.08% of claims in 2010 were under children's critical illness cover. In previous years, some insurers have reported as much as 5% of the claims as children's claims.

Children's cover resonates with treating customers fairly; the financial need generated by having to care and provide treatment for a sick child can be as significant as that generated for the policyholder.

The benefit payable is typically £20,000 or 50% of the sum assured, or £25,000 or 50% of the sum assured.

The number of illnesses covered is between 27 and 140. We must, however, question the sense of some of the critical conditions covered for children. For most providers it is typically more than 30 different conditions, many of which simply will not be contracted by minors.

In order for advisers and consumers to be able to sensibly compare the value of the children's cover offered by each product, it will be necessary to establish a finite list of those conditions of major concern to the younger age groups, excluding those conditions that are predominantly congenital, which are excluded by many providers.

Children's critical illness				
Provider	Number of conditions	Maximum benefit	Minimum age	Maximum age attained
AEGON	36	£20,000 or 50% SA	30 days	17
Ageas	37	£25,000 or 50% SA	30 days	17
Aviva Life & Pensions	32	£20,000 or 50% SA	30 days	17
Barclays	38	£25,000 or 50% SA	30 days	17
Bright Grey	39	£20,000 or 50% SA	30 days	17
Bupa Individual Protection	42	£25,000 or 25% SA	30 days	17
Friends Life	37	£25,000 or 50% SA	30 days	20
Friends Provident	35	£20,000 or 50% SA	30 days	17
Legal & General	38	£25,000 or 50% SA	30 days	17
LV=	37	£25,000 or 50% SA	30 days	17
Nationwide Building Society	38	£25,000 or 50% SA	30 days	17
NatWest Life	26	£20,000 or 50% SA	30 days	17
PruProtect	140	£125,000	90 days	18
PruProtect (Essentials)	140	£100,000	90 days	18
Royal Bank of Scotland	26	£20,000 or 50% SA	30 days	17
Royal London	36	£20,000 or 50% SA	30 days	17
Sainsbury's Finance	38	£25,000 or 50% SA	30 days	17
Santander	28	£20,000 or 50% SA	30 days	17
Scottish Provident	41	£20,000 or 50% SA	30 days	17
Scottish Widows	27	£25,000 or 50% SA	26 weeks	20
Tesco Bank	32	£25,000 or 50% SA	30 days	17
The Co-operative Insurance	22	£15,000 or 50% SA	3 years	17
Zurich Assurance	40	£25,000 or 50% SA	90 days	18

Severity-based critical illness cover

The interest in severity-based critical illness cover continues, although three providers that incorporated severity-based conditions in their plans have withdrawn from the market in the past year.

13 providers now have some element of severity-based cover. In the main, these are traditional plans with reduced rider benefits for less severe conditions, largely restricted to mastectomy and low grade prostate cover.

PruProtect's Serious Illness Plan provides the widest severity-based critical illness cover, with 154 illnesses, relating to 14 claimable areas of the body. There are six defined severity levels (A-F) paying 100-10% of the sum assured respectively.

Severity-based critical illness		
Provider	Conditions	Benefit
Ageas	Total mastectomy for DCIS	50%/£25,000 (x2)
Barclays	Total mastectomy for DCIS	25%/£25,000
BHFS	Malignant cancer (level 3) Benign brain tumour (level 3) Ductal carcinoma in situ (level 3) Carcinoma in situ (level 3) Skin cancer or melanoma in situ (level 3)	£24,000 £24,000 £12,000 £750 (x4) £750 (x4)
Bright Grey	Mastectomy, segmentectomy or lumpectomy for DCIS Low grade prostate cancer	20%/£15,000 20%/£15,000
Bupa	Mastectomy for DCIS Low grade prostate cancer Carcinoma of the cervix uteri Crohn's disease Ulcerative colitis Coronary angioplasty	12.5%/£12,500 25%/£25,000 12.5%/£12,500 12.5%/£12,500 12.5%/£12,500 25%/£25,000
Chartis	Less invasive cancers	£1,000
Friends Life	Total mastectomy Low grade prostate cancer	20%/£15,000 20%/£15,000
Friends Provident	Total mastectomy CIS	20%/£15,000
Legal & General	Total mastectomy for DCIS	25%/£25,000
Nationwide	Total mastectomy for DCIS	25%/£25,000
PruProtect	All conditions from A (100%) payout to F (10%)	100% - 10%
Sainsbury	Total mastectomy for DCIS	25%/£25,000
Scottish Provident	Mastectomy, segmentectomy or lumpectomy for DCIS Low grade prostate cancer	20%/£15,000 20%/£15,000

Severity-based cover is good because while some less severe conditions may not be life-threatening or may have a short recovery time, they may cause some level of financial hardship, which is addressed by the partial payment.

Severity-based cover may not be suitable as a mortgage repayment vehicle because, depending upon the seriousness of the illness the benefit may not pay off the mortgage debt in one go, unlike traditional critical illness cover, although the partial payment could be used to make a capital repayment to reduce monthly outgoings.

The introduction of the cancer related severity-based benefits by traditional providers is a welcome move. Not only do they provide relevant benefits commensurate with the level of need, but they address one of the more serious PR issues around critical illness cover. People who get cancer believe they are due a payment but, while their condition is distressing, it may not be sufficiently severe to trigger a payment under a 'traditional' plan.

Severity-based cover presents a further product development opportunity for the product. The list of serious illnesses available under critical illness plans has now largely been exhausted; further development is likely to centre on less severe conditions and partial payments.

IO Severity-based cover may not be suitable as a mortgage repayment vehicle...although the partial payment could be used to make a capital repayment to reduce monthly outgoings OI

Restoring value and confidence

Aggregator sites are good at identifying the cheapest cover, however the downward pressure on price should be of concern as it will result in bad outcomes for the industry and consumers.

If prices are cut to the bone, there is no value to providers; the downward pressure on commission means there is no value for advisers and the move away from protection will continue. Worse still, if cheaper products mean poorer cover, ultimately consumers will not get the cover they need.

According to the ABI, in 2009, the UK insurance industry paid out the equivalent of £18m each day in death and disability benefits. This is a powerful statistic and a good story to tell in the face of apathy and bad publicity.

It is estimated that on average in the UK people only have sufficient savings to keep going for three months. Therefore for many people, insurance-based solutions are a must.

The PPI mis-selling scandal has created a lot of bad publicity for the banks but also the insurance industry generally. Restoring confidence is vitally important.

Five-point plan for restoring value

1. Position critical illness cover as a lifestyle protector, rather than simply a mortgage repayment vehicle;
2. Sell critical illness cover and income protection as a package, to cater for both regular basic needs and to provide a lump sum to address capital needs;
3. In the absence of income protection, sell high sums assured for income generation;
4. Recommend a policy for clients based on the value of cover not simply the number of illnesses;
5. Sell 'health' – products that have health and wellbeing programmes encourage clients to live healthier lifestyles so that they may never need to claim; and some give premium discounts in return for improved health regimes.

Appendix - Providers offering critical illness cover

Provider	Product	Plan type	Distribution	Standalone	Level term with CICC	Decreasing term with CICC	Family income benefit with CICC	Whole of life with CICC
AEGON	Business Protection	Menu	IFA	✓	✓	✓		
AEGON	Personal Protection	Menu	IFA & direct	✓	✓	✓	✓	
Ageas	Real Life Cover	CIC automatic	IFA		✓			
Ageas	Low Start Plan	CIC option	IFA	✓	✓			
Ageas	YourLife Plan	Menu	IFA	✓	✓	✓	✓	
Aviva	Business Protection	CIC option	IFA		✓	✓		
Aviva	Term Assurance	CIC option	IFA		✓	✓		
Barclays	Term Life Cover	CIC option	Direct		✓	✓		
BHSF	Plan4Life	CIC only	IFA & direct	✓				
Bright Grey	Business Protection Menu	Menu	IFA	✓	✓	✓		
Bright Grey	Personal Protection Menu	Menu	IFA	✓	✓	✓	✓	
Bright Grey	Lifestyle Protection	CIC option	IFA & direct		✓	✓		
Bupa	Critical Illness with Life Cover	Menu	IFA & direct	✓	✓	✓	✓	
Bupa	Critical Illness Cover - Business	Menu	IFA & direct	✓		✓		
Chartis Direct	CancerCare Plan	CIC only	Direct	✓				
Chartis Direct	WellWoman Plan	CIC only	Direct	✓				
Direct Line	Life Cover with Critical Illness	CIC automatic	Direct		✓	✓		
Forester Life	Lifestyle Protection Options	Menu	Direct	✓	✓			
Friends Life	Protection Account - Business	Menu	IFA	✓	✓	✓		
Friends Life	Protection Account - Personal	Menu	IFA	✓	✓	✓		
Friends Provident	Business Protection Plan	CIC option	IFA		✓	✓		
Friends Provident	Level Term Assurance	CIC option	IFA		✓	✓		
Friends Provident	eSelect Life or Earlier CIC Cover	CIC option	IFA & direct		✓	✓		
HSBC Life	Business Protection Plan	Menu	Direct	✓	✓	✓		
HSBC Life	LifeChoices	Menu	Direct		✓	✓		

Appendix - Providers offering critical illness cover (continued)












Provider	Product	Plan type	Distribution	Standalone	Level term with CICC	Decreasing term with CICC	Family income benefit with CICC	Whole of life with CICC
HSBC Life	TraumaChoice Level & Decreasing	Menu	Direct	✓				
Legal & General	Business Protection Term Assurance	Menu	IFA		✓	✓		
Legal & General	Multi Protection	Menu	IFA	✓	✓	✓	✓	
Legal & General Direct	Term Assurance	Menu	Direct		✓	✓		
LV=	Flexible Protection Plan	Menu	IFA & direct	✓	✓	✓		
Nationwide	Multi Protection	Menu	IFA	✓	✓	✓		
NatWest Life	Term Assurance Plan	CIC option	Direct		✓	✓		
NFU Mutual	Temporary Assurance with CIC Cover	CIC automatic	Direct		✓	✓		
NFU Mutual	Critical Illness Policy	CIC only	Direct	✓				
PruProtect	Business Protection Plan	CIC option	IFA & direct		✓	✓		
PruProtect	PruProtect	Menu	IFA & direct	✓	✓	✓	✓	✓
PruProtect	PruProtect Essentials Plan	Menu	IFA & direct	✓	✓	✓	✓	✓
Royal Bank of Scotland	Term Insurance	CIC option	Direct		✓	✓		
Royal London	Personal Protection Plan	CIC option	Direct		✓	✓		
Sainsbury's Finance	Family Protection Plan	CIC option	Direct		✓	✓		
Sainsbury's Finance	Mort Protection Plan	CIC option	Direct		✓	✓		
Santander	Personal Protection Plan	CIC option	Direct		✓	✓		
Scottish Provident	Pegasus Business Assurance Plan	CICC WOL	IFA					✓
Scottish Provident	Pegasus Personal Assurance Plan	CICC WOL	IFA					✓

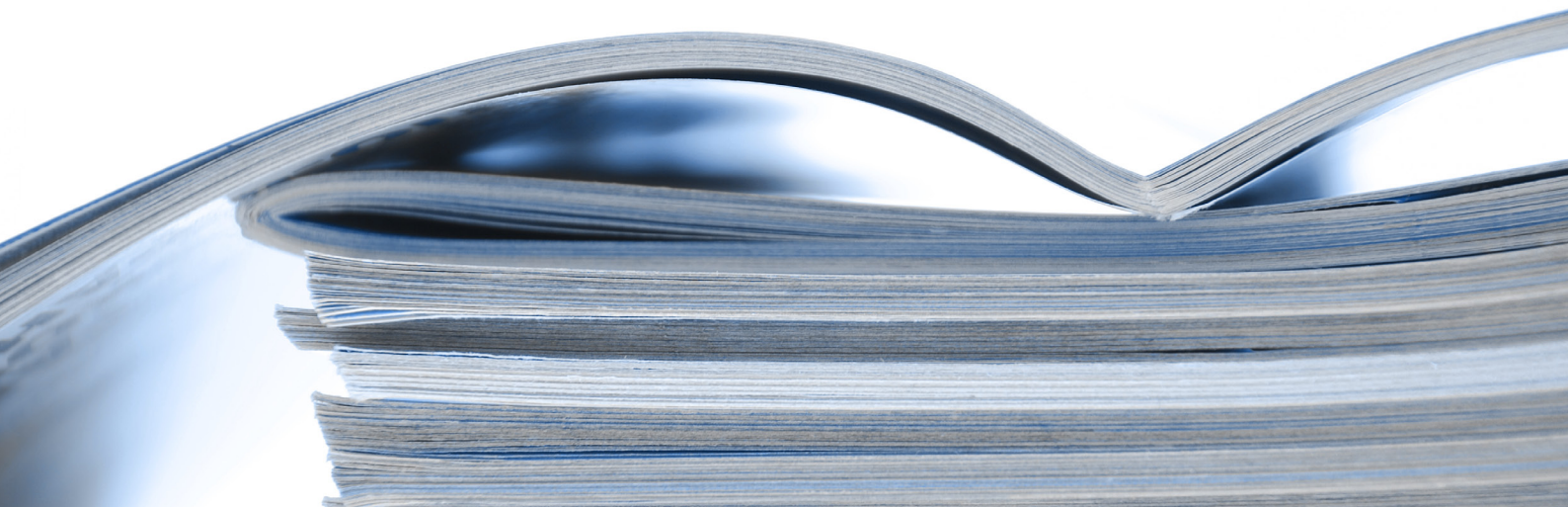
Appendix - Providers offering critical illness cover (continued)

Provider	Product	Plan type	Distribution	Standalone	Level term with CICC	Decreasing term with CICC	Family income benefit with CICC	Whole of life with CICC
Scottish Provident	Self Assurance Term - Business	Menu	IFA	✓	✓	✓	✓	
Scottish Provident	Self Assurance Term - Mortgage	Menu	IFA	✓	✓	✓	✓	
Scottish Provident	Self Assurance Term - Personal	Menu	IFA	✓	✓	✓	✓	
Scottish Widows	Protection for Life	Menu	Direct		✓	✓		
St Andrews Life	Term Assurance Plan	CIC option	Direct		✓	✓		
St Andrews Life	Flexible Protection Plan	CICC WOL	Direct					✓
Tesco Bank	Fixed Term Life Cover with CIC	CIC automatic	Direct		✓	✓		
Tesco Bank	Tesco Critical Illness Cover	CIC only	Direct	✓				
The Co-operative Insurance	Term Assurance with Critical Illness	CIC automatic	Direct		✓	✓		
The Co-operative Insurance	Critical Illness Cover	CIC only	Direct	✓				
Zurich Assurance	Term Assurance	Menu	IFA	✓	✓	✓		

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	Measuring adviser satisfaction in the platforms industry	Jul 2011
	A guide to discretionary management	Jun 2011
	A case study of income fund diversification	Jun 2011
	A guide to platforms	Jun 2011
	A case study of managed portfolio services	Jun 2011
	A guide to income generating funds	May 2011
	A case study of strategic bond funds	Apr 2011
	A review of annuities	Mar 2011
	A guide to multi-managers	Mar 2011
	A review of pensions providers and their service propositions	Mar 2011
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Notes

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