

TOPIC D - DISABILITY AND DREAD DISEASE INSURANCE

P.J. DAVIES

To deal with PHI first; there is a general feeling that the experience of PHI has been worsening in recent years with the economic recession and coupled with this, there has been a growing claim awareness, particularly in certain groups. Far more claims are being repudiated than was previously the case and with unions progressively growing in strength, we can expect a growing claim awareness within groups and it to become much more difficult to repudiate claims because of the bargaining power of these unions.

At the same time on the competitive side we have seen rates being cut, maximum benefits being increased, exclusions being removed, pressure on pre-existing exclusions and a lot of pressure on war and riot exclusions. The growing claim awareness, and the increasingly competitive market have led to a large reduction of the profitability of PHI. Whereas it was extremely profitable several years ago for most offices, now it is only marginally so.

The issue of paying 100% of salary was raised. This is coming up soon at the LOA Annual General Meeting. There was a general lack of enthusiasm for the idea of writing this particular class of business, but a general resignation to its inevitability.

There is a bit of a question mark over what will happen with the experience if we do offer 100% of salary. The general feeling seems to be that we'll tend to end up with longer claims rather than significantly more claims. But there is little to go on by way of experience.

Other issues that came up, still on the subject of PHI, was that the LOA agreement seems to be viewed as a good thing. The statutory valuation basis for disability claims is seen as being too rigid having a fixed rate of 6%.

Several parties would like to see local PHI statistics. There are a lot of overseas statistics being produced. Those statistics which are available are being kept confidential.

The last issue on PHI which was raised is should the actuary get involved in the assessing of disability claims and there seemed to be strong feelings for and against. On the lump sum disability side a lot of the comments made about PHI also were made here.

One particular problem with lump sum disability seems to be the large number of group schemes particularly in the semi-government where the experience is still unsatisfactory. This seems to be a problem that the industry is still tackling. Here again the LOA lump sum disability, or the LOA disability agreement which brought income and lump sum into account in aggregating claims was seen as a good thing.

On the dread disease side there seems to be a big question mark which a lot of people raised over the need for this benefit. Nobody is quite sure why we are writing it. The whole thing seems to be marketing driven. It seems people would rather see something closer to meeting the needs of the policy holder. Something like a medical aid top up, and somebody also mentioned there is stop loss medical aid cover available overseas. Perhaps we could also consider something like a hospitalisation benefit. This would seem to meet the needs of the public better than the dread disease product.

However, despite predictions that dread disease wouldn't last long, it seems to be going from strength to strength and appears even to be taking hold in some overseas countries.

We're also seeing benefits added all the time, virtually every product which is launched has some additional benefit and there doesn't appear to be any end to the list of what will be covered.

On the rates of dread disease there is a lot of uncertainty about what they should be. The present rates appear to have been based on "complicated re-assurance models" or on overseas statistics. Should one guarantee these rates if we are uncertain on what the incidence is going to be. If you've got a universal life product where you have current cost premium rates, it is easy not to guarantee them. But if you have got a guarantee on your premium products you have got a problem. It is generally felt that the rates aren't a competitive issue at the moment. They do seem to be holding fairly steady where they are, and it is certainly too early to decide whether the experience is good or not. You don't know what the influence of the select period is going to be.

It was however mentioned that the competition on limits, which I will come to next, and the competition on benefit conditions (adding extra benefits all the time) was too early in the life of this type of product.

There was general support, but not complete support, for the idea of aggregating benefits. There are a lot of arguments for and against this. And whether this aggregation would be at underwriting stage when the policy is issued, or at claim stage or at both, opens a lot of different possible approaches. Whatever is done, there will have to be co-operation between the life offices if anything is to see the light of day.

The next point which was discussed was whether dread disease should be an acceleration benefit or not. Apart from the legal implications of free standing dread disease cover, it is seen as immoral to pay out the full sum assured on the life policy and let the policy holder squander it and leave nothing to the dependants. We may see a move to an independent benefit and apparently one office already gives the right to top up the cover after a dread disease claim.

Policy wordings - This was also discussed. Apart from the adding of additional diseases there does seem to have been a tightening up of policy wording. This has been a natural result of experience with particular claims, and problems with certain claims which weren't clear in terms of existing wording.

Statistics - Everybody would like to see some local statistics. As with disability, the problem here is those people who have them don't want to show them.

Smoker, non-smoker differentials - There is some support for a small differential there.

Underwriting - these products are being underwritten significantly more strictly than conventional life products and this is seen as a good thing, particularly as again this was such a new benefit in the insurance world. There has been a slight trend to ensure sub-standard lives, whereas at first a life would have

either been accepted at ordinary rates or would have been declined. There is now a growing tendency to accept loaded dread disease cases but this isn't necessarily a bad thing.

The group side - Offices are starting to market this product on the group side and the general feeling was that this would probably not be as popular as or take hold in the same way as the individual product had taken hold.

Finally we discussed reserving for these benefits. With lump sum disability it is common just to reserve the annual premium. With the dread disease this doesn't seem to be adequate and one should in fact double up the life and mortality reserve.

P.G.A. TRUYENS

In terms of increasing claims awareness, the effect of the claims manager to substantially reduce the claims level, is obviously crucial. It is one of the areas where perhaps the rates are determined by the claims manager and not by the underwriter as it is the case in ordinary life assurance.

R. GRENVILLE-JONES

In my group the dread disease discussion moved onto urban terrorism and war and risks of that sort and it was noted that some offices are using - and I am going to use my words now - the dread disease as a benefit vehicle for providing cover of that sort. It may well be excluded under the normal disability cover attached to a life policy. We had a discussion on whether we thought the benefit was insurable or not, and the conclusion was that if you've got the capital and you write business within the risks you can bear from your capital, then you can do it.

It was suggested that there is such a variety of different types of benefits and that this was disorderly and the re-assurers could perhaps make standardized benefits for us all to sell. That idea was quite quickly shot down.

G.S. BARRANS

We tried to define what dread disease was and we got quite a succinct definition: it is capital sum payable on diagnosis of specified diseases which require expensive treatment and are feared by the public. Someone immediately said is urban terrorism a dread disease? The answer was yes - re-assurers dread it.