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MEDIA RELEASE: LIFE INDUSTRY GETS GO-AHEAD TO STANDARDISE CRITICAL ILLNESS DISCLOSURE

For the information of members we circulate a media release issued today.

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DEPUTY CHIEF EXECUTIVE OFFICER

MEDIA RELEASE

ASSOCIATION FOR SAVINGS AND INVESTMENT SOUTH AFRICA (ASISA)

6 MAY 2009

LIFE INDUSTRY GETS GO-AHEAD TO STANDARDISE CRITICAL ILLNESS DISCLOSURE

South African life insurers have been given the go-ahead by the Financial Services Board as well as the Competition Commission to standardise their disclosure to consumers of when critical illness products will pay out.

Peter Dempsey, deputy CEO of the Association for Savings and Investment South Africa (ASISA), says this is significant since standardised disclosure will make it a whole lot easier for consumers to select the critical illness products (also known as dread disease or severe illness products) best suited to their needs.

Critical illness products are designed to pay out a benefit when a policyholder has a serious illness or suffers a traumatic medical event which results in financial difficulty.

Dempsey says since critical illness insurance products are designed to cater for various uncertain and unpredictable medical events, the features of these products and the definitions of conditions covered have become increasingly complex.

“Unfortunately the nature of critical illness insurance products makes it impossible to simplify them completely, but we acknowledge that the absence of standard industry disclosures and definitions has made it difficult for consumers to compare these products and understand when claims will be paid by the insurer.”

Therefore, all ASISA members offering critical illness products will be obliged to provide consumers with the new ASISA critical illness disclosure grid as from 1 September this year. Companies will also be compelled to assess applicable critical illness claims for policies sold from 1 September this year against ASISA definitions.

However, he cautions consumers to not only consider the grid when buying critical illness products, but to weigh up the other product features as well together with a company's claims payment history.

The grid

Dempsey says as from September this year consumers can expect life companies to provide them with a disclosure grid, which will indicate what percentage of the insurance cover will be paid out for four different severity levels applied to the four major medical conditions: heart attack, cancer, stroke, and coronary artery by-pass graft. These conditions make up between 70% and 90% of all critical illness claims.

The percentage of benefits payable for each severity level of each condition is determined by individual life insurers and will range from 0% to 100%. When a company indicates a percentage cover for a certain severity level of a condition, the ASISA definitions must be applied at claims stage irrespective of the contractual definition. Where a zero benefit is indicated, the client will have to meet the company's definition and not the ASISA definition.

According to Dempsey the disclosure grid is underpinned by standard medical definitions to which companies will have to refer when they make the required disclosures and when a claim is assessed.

“It needs to be strongly emphasised that standardised definitions do not necessarily mean simpler definitions. In many instances the definitions are more detailed, but will lead to greater consistency in the decisions taken by insurers on whether to pay a benefit or not.”

He says the disclosure grid and the definitions were derived at by members of the Standardised Critical Illness Definitions Project (Scidep) Committee, set up by the former Life Offices’ Association (LOA). The committee consisted of doctors, underwriters and actuaries from various insurance and reinsurance companies.

Many critical illness claims are triggered by medical conditions, explains Dempsey. “As a result the life industry often comes into conflict with medical practitioners whose definition of when someone had a heart attack, for example, may not be the same as the insurance definition. Therefore the insurance doctors and the clinical doctors had various workshops to come up with definitions that were suitable to both parties.”

Two phase approach

Given the complexities involved in amending systems that generate quotations and contracts, life companies will be given the opportunity to implement the standardised disclosure grid in two phases. By 1 September this year the disclosure grid must be included in all relevant marketing material and websites. And by 1 April next year the disclosure grid must also form part of policy quotes and contracts.

Dempsey says this does not prevent companies from implementing the standardised disclosure even earlier.

He stresses that the standardisation of disclosure does not attempt to stifle competition as insurers are not restricted in terms of the number of diseases covered, the percentage paid out, the number of payouts that can be made, or the rates that they charge.

International trends

Dempsey says there is an international precedent for standardised critical illness definitions - these have already been implemented in the UK, Singapore and Malaysia. Other countries like China and South Korea are also in the process of standardising definitions.

He points out that unlike the products sold in the countries mentioned above, some of the critical illness products sold in South Africa are severity-based, making it more difficult to standardise the definitions.

Ends

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ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies. ASISA was formed in 2008 by members of the Association of Collective Investments (ACI), the Investment Management Association of South Africa (IMASA), the Linked Investment Service Providers Association (LISPA) and the Life Offices' Association (LOA).