

**ABI in conjunction with AIFA, BBA, BSA and CML**

**Critical Illness – Oral Disclosure Guidance**

**September 2010**

## **1. Background**

As part of its review of the implementation of ICOBS standards which became effective in January 2008, the FSA commissioned various research studies to assess the effectiveness of the regime in meeting target outcomes for non-investment insurance.

There has been a focus on compliance with ICOBS R 6.4.2, which states that during a sales dialogue with a consumer on a main characteristic of a policy, the firm must also provide oral information on all the policy's main characteristics.

In summary, the FSA research findings confirmed that customers do not consistently properly understand critical illness cover, and in many cases have a fundamental lack of understanding of even the basic elements of the cover they are taking out.

## **2. Purpose**

The purpose of this guidance is to provide a checklist of points that should be disclosed orally as part of the end-to-end sales process in an oral (or part oral) sale. In each case, we have also included an example script that can be adapted to the individual sale.

The aim is to ensure that firms are consistently meeting the regulatory standards that apply to the oral disclosure of critical illness policy benefits and exclusions.

Firms must consider their own sales process, the actual critical illness policy being described, and any other factors that might influence the customer's understanding of the cover.

## **3. Scope**

The example scripts refer to an example of one type of policy with critical illness cover – where applicable, the example script is based on critical illness cover on a single life, fixed premium basis, as this is the most common variant of the product that consumers choose. Where this is not applicable to the point that needs to be disclosed orally, the example script is based on other variants - for example, on stand-alone critical illness cover if a survival period applies. Firms will need to ensure that the actual oral disclosures reflect the terms of the policy being described.

This guidance does not aim to cover the entire sales process, only those aspects that are specific to critical illness cover. In part oral sales, other points that are required to be disclosed orally include, for example, whether or not advice has been given and details of the cancellation period.

Each of the key points in this guidance should be disclosed orally at least once during the end-to-end sales process, and in a very clear form. Brevity is a great aid to clarity. Repetition for emphasis has been avoided as this guidance does not set out to provide a script for the end-to-end sales process – it covers only the key points that must be disclosed orally at least once.

## **4. Timescales**

The framework should be implemented across all ICOBS regulated distribution channels making oral, or part oral, sales as soon as possible, but no later than 31 December 2010.

## 5. Checklist and Example Scripts

Feature	To Be Explained	Check
<p>The need for critical illness cover and what it is</p>	<ul style="list-style-type: none"> <li>▪ What critical illness cover is and why it is important</li> </ul> <p>Example script:</p> <p>My aim is to make sure you understand clearly what Critical Illness Cover is, what it protects you against and what its limitations are.</p> <p>Critical illness cover is a type of insurance that pays out a lump sum if you get one of the critical illnesses and it is severe enough to be covered by the policy.</p> <p>Because advances in medicine mean that people are living longer and surviving illnesses that used to kill us, critical illness cover has become popular as it pays out a one-off lump sum that you can spend however you want to.</p> <p>Some people use the money to pay off their mortgage, or pay for treatment, changes to their home, living expenses and so on. The policy doesn't need you to be off work, but it doesn't pay you an income if you are, it just pays out the lump sum. There are other types of policy that are designed to pay an income if you would prefer that.</p> <p>Once your cover starts it cannot be withdrawn throughout the duration of the policy unless you stop paying premiums.</p>	<p>✓</p>
<p>Basics</p>	<ul style="list-style-type: none"> <li>▪ The basis of the cover selected – whether stand-alone or included with life cover and whether single or joint cover</li> <li>▪ The basis of the benefit payable – a lump sum paid once and then the policy ends</li> </ul> <p>Example script for a term life policy with accelerated critical illness cover:</p> <p>Your policy will pay out a tax-free lump sum of [<i>X thousand pounds</i>] for you to spend as you wish if you have a valid critical illness claim. If you die and you haven't had a valid critical illness claim, the same money will be paid to your family. Premiums stop when this lump sum has been paid out and the policy ends.</p>	<p>✓</p> <p>✓</p>
<p>Survival period</p>	<ul style="list-style-type: none"> <li>▪ The survival period – if stand-alone critical illness cover</li> </ul> <p>Example script:</p> <p>Critical illness cover is designed to help you cope financially after surviving a critical illness and so, to qualify for the benefit, you need to survive for at least [<i>14 days</i>] after the diagnosis.</p>	<p>✓</p>

<p>The three main critical illnesses</p>	<ul style="list-style-type: none"> <li>▪ The three main critical illnesses which have to be covered and their frequency of claim</li> <li>▪ The limitations of cover - advisers should highlight the need for the each definition to be met for a claim to be valid with a general example about how this works in the case of cancer to illustrate the point.</li> </ul> <p>Example script:</p> <p>All critical illness policies cover the illnesses that the medical profession call ‘the big three’ – because they cause by far the most claims. You will see these listed in the policy summary leaflet that I will send you as...</p> <ul style="list-style-type: none"> <li>• Cancer – excluding less advanced cases</li> <li>• Heart attack – of specified severity</li> <li>• Stroke – with permanent symptoms</li> </ul> <p>Because some forms of these illnesses could not really be thought of as critical, for your claim to be paid, your illness must always be severe enough to meet the industry minimum standard definition of these critical illnesses. Specifically, cancers are only covered if they are malignant and have started to spread. So less advanced cases of cancer such as cancers that have not started to spread are not covered. Heart attacks have to be severe enough to cause the death of a portion of the heart muscle and strokes have to result in permanent symptoms.</p>	<p>✓</p> <p>✓</p>
<p>Other critical illnesses</p>	<ul style="list-style-type: none"> <li>▪ That the policy covers the listed illnesses and no others</li> <li>▪ That the industry uses minimum standard definitions for 20 other illnesses that are developed taking account of medical advice, and why this is important for consumers</li> </ul> <p>Example script:</p> <p>Your policy also covers [25] other less common critical illnesses. As with the big three, these are all listed in the policy summary document. For example for a diagnosis of multiple sclerosis to result in a claim you would have to suffer persisting symptoms. Some people don’t, so their illness is not a critical one. If it becomes critical later and then meets the terms of the policy, the policy will pay out.</p> <p>All of the illnesses covered use the industry-wide standard illness definition wherever one is available - there are 23 of these in all.</p> <p>The point to understand is that your policy doesn’t cover every illness you could ever get – for example, it doesn’t cover stress or back pain that could result in you being temporarily off work. It only covers the critical illnesses listed in the policy summary and defined in the policy.</p>	<p>✓</p> <p>✓</p>

<p>Significant limitations</p>	<ul style="list-style-type: none"> <li>▪ Significant limitations</li> </ul> <p>Example script:</p> <p>Your policy does contain some exclusions that you should know about. You will not be covered for an intentional self-inflicted injury, or if your condition is caused by you committing, and being convicted for, a criminal act or taking illegal drugs. These exclusions are all clearly set out in the policy summary that I will send you.</p>	<p>✓</p>
<p>Premiums</p>	<ul style="list-style-type: none"> <li>▪ The amount and basis of the premium – guaranteed or reviewable</li> </ul> <p>Example script for a guaranteed premium product:</p> <p>If you are accepted on standard terms, the premium for your policy will be [<i>X pounds</i>] a month. This is payable for the full [<i>25 year</i>] term of the policy unless you decide to cancel the policy and give up the benefits. Once your policy has started, the premium is fixed.</p> <p>If you were to keep the policy in force for the full [<i>25 years</i>], and not have an earlier valid claim, the total premiums payable would be the monthly amount times twelve months, times 25 years which works out to be [<i>Y pounds</i>] in total. If you were to have valid claim you would get [<i>Z pounds</i>]. The full terms and conditions and critical illness definitions are shown in the policy document that the insurance company will send you.</p>	<p>✓</p>
<p>Disclosure and claims</p>	<ul style="list-style-type: none"> <li>▪ The importance of answering all the questions carefully, to the best of your knowledge and belief, and the consequences of not doing so.</li> </ul> <p>Example script:</p> <p>When you apply it's vital that you answer all the questions carefully, to the best of your knowledge and belief. Insurance companies do check the information you give them if you make a claim, and they can refuse to pay your claim if the information you give them is wrong.</p>	<p>✓</p>
<p>Policy Summary</p>	<ul style="list-style-type: none"> <li>▪ Explain the importance of reading and keeping the Policy Summary (Key Facts) document</li> </ul> <p>Example script:</p> <p>All the information we've discussed, and more, is contained in the policy summary I will send you. It explains clearly how your policy works, what it covers and what's not covered. Please read it carefully and then keep it safely.</p>	<p>✓</p>