

TPD – A BRIEF UPDATE

We have written previously about the ABI consultation paper on best practice for critical illness cover that considers the problems of the unacceptable level of declined claims for total and permanent disability (TPD). The consultation period is over, and now the ABI committee responsible for initiating the review needs to consider the results. The review has proved interesting and provoked a lot of discussion within the industry.

Apparently, most insurers have been unhappy – and some very unhappy – with the proposals. As part of their reviews, some companies laudably examined previous TPD claims to see how they would be judged using the new definitions. The outcomes confirm that quite possibly the current problems of TPD are in danger of being replaced by others that are just as bad for all stakeholders.

As always, how cover is defined and the policy conditions worded are key. Of crucial importance will be what other conditions are explicitly excluded, for example whiplash and other pain syndromes where chronic regional pain syndrome is concerned. This condition, by the way, is relatively rare in the UK and has very specific diagnostic criteria, but it is only one in what is now a wide spectrum of disorders and syndromes. Similar considerations apply to diagnoses that may be excluded from the mental illness and back pain conditions – which may, in theory, be valid claims under ‘classic’ TPD.

At the end of this review process, how will underwriting guidelines need to be changed and how easy will claims adjudication be? Given the nature of some of the proposed covered conditions, underwriters may feel the need to build in a margin to allow for ‘diagnosis creep’ when it comes to a claim; yet at the same time there is a need to be able to justify underwriting decisions to consumers and regulators. This may prove tricky.

Some think that removing the provision of TPD cover under critical illness is a bad idea that verges on being anti-competitive. Others have said that they will only be happy if the conditions introduced to replace TPD provide the same or more cover than before. This seems an unrealistic and unachievable goal. Besides, is this exercise about what is covered or what consumers believe is covered? Perhaps closing the gap in perception is what this exercise should be about. Unless both providers and consumers have a common understanding on what is covered, then problems at claim time will remain.

Will the TPD conundrum ever be solved? The definition of ‘classic’ TPD leaves too much choice as to whether to claim. The proposed reforms leave gaps and, in an effort to be accommodating, open up a path to a claims quagmire. Is there a third way?

Maybe a more pressing question is why the market is collaborating in this fashion. Aside from the pitfalls of ‘design by committee’, coming up with a better product is something individual companies should be doing. It’s called competition. Other companies may choose to follow the market leader(s). Ultimately, consumers will benefit. The excuses that IFAs won’t understand and/or will find it all too difficult just don’t wash.

Now, is there an insurer out there that feels passionate enough about its purpose and its commitment to customers to strike out on its own?

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