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**Re: Serious Illness Cover Themed Inspections**

Dear «Greeting»

As you may be aware, the Financial Regulator carried out a series of consumer focussed inspections of selected Life Assurance companies during 2007, specifically reviewing their sales and claims handling procedures in relation to Serious Illness Cover (SIC) policies. The purpose of this letter is to provide the life insurance industry with feedback in relation to the Authorised Officers findings on those visits. We hope that it will be of future assistance to you in developing and ensuring your own institution's compliance. Accordingly, we would ask you to consider whether any of the issues set out below are relevant to your institution.

**Issues relating to the sale of SIC Policies**

**1. Description of the Serious Illness Cover Product**

The actual description of this product as a "serious illness cover" policy may result in some customers mistakenly assuming that the product covers **all** serious illnesses rather than the limited number of illnesses set out in the terms and conditions of such policies. It was interesting to note that two firms advised that they have changed the name of their "Serious Illness Cover" product to "Specified Illness Cover" as they believe that this term describes the nature of the product more clearly to the customer.

We would encourage the industry to explore ways in which the clarity of this product can be improved.

All of the firms inspected explained the specific illnesses covered by their policies in their product documentation. However, an issue arises as to whether customers actually read, and more importantly, understand the documentation they are given, especially as this information often contains complex medical definitions. It is important that those responsible for the actual sale of SIC products are aware of this and seek to ensure that the key points of the product are explained fully to customers at the point of sale. Section 6 of the General Principles of the Consumer Protection Code requires that a regulated entity “makes full disclosure of all relevant material information, including all charges, in a way that seeks to inform”. In addition, customers need to be reminded of their responsibility to be satisfied with the nature and extent of the cover they are purchasing.

This issue may also arise in relation to other life assurance products, such as Permanent Health Insurance, which can contain complex medical definitions.

## **2. Non-Disclosure of material information in proposal forms**

It was noted that one of the main reasons given by firms for declining claims is non-disclosure of material facts by the customer in the proposal form. It was noted that, in general, firms seek to stress to customers the importance of disclosing all material facts including the insertion of prominent warning notices on proposal forms above the medical history questions. We noted that one firm publishes leaflets which explain the importance of disclosure and the consequences of non-disclosure.

It is apparent that the failure to make full disclosure by customers in proposal forms is a major reason for declined claims. We note the positive efforts of firms to stress the importance of full disclosure in proposal forms at point of sale and would encourage further attention on this point.

## **3. Use of examples of successful claims in the marketing of the SIC product**

When marketing SIC products, some firms provide examples of actual claims that the firm has paid out, in their marketing literature. An example of this is as follows:

Age	Sex	Occupation	Illness	Benefit Paid
40	Male	Mechanic	Cancer	€53,121

In the above example, the firm has classified the illness that the claim was paid out on as “cancer”. However, the definition of cancer as set out in all firms’ policy terms and conditions is very detailed and the payout is dependent on the type of cancer and its degree. This type of example may create false expectations for the customer, as they might assume that all types of cancer are paid out on.

Care needs to be taken by firms that their marketing and advertising of SIC is clear as to the benefits of SIC products and that restrictions and exclusions are fully explained, especially where reference is made to examples of particular illnesses and amounts paid out. While marketing leaflets may be helpful to customers, care needs to be taken that they do not create unrealistic expectations among customers.

#### **4. Execution Only Business**

While Serious Illness Cover is not the most complex life assurance product available, there are certain key aspects of the product that the customer needs to be aware of e.g. that not all illnesses are covered under the policy. If customers are purchasing serious illness policies on an execution only basis, they may be losing out on potentially valuable advice regarding the product features, including the restrictions and exclusions. In some cases the absence of this advice could lead to a customer purchasing a product which they are unclear about. It could also lead to cases of non-disclosure of material facts by customers, as the importance of disclosure and the consequences of non-disclosure may not be understood by the customer.

The Financial Regulator noted in some firms a higher instance of execution only sales than we expected and recommends that firms closely monitor their sales of execution only business to ensure that such sales comply with the relevant sections of the Consumer Protection Code.

#### **Issues relating to the Handling of SIC Claims**

#### **5. Delays in receiving medical information**

A sample of pending claims files were reviewed and it was noted that many of these files were pending as a result of outstanding medical information. It appears that delays can arise in firms receiving medical reports.

We ask that firms consider informing their customers where the claim is being delayed for this reason.

## **6. Children's Claims on SIC policies**

During the assessment of firms' documentation, we noted that none of them request details of children's health on applications forms. All firms have restrictions regarding what a child is covered for. These restrictions on Children's Cover may not be immediately apparent to the policy applicants, especially as there are no questions relating to the medical condition of the child in the proposal form.

The Financial Regulator requests that firms consider this issue and explore how best to highlight to customers the restrictions and exclusions regarding children's claims.

We appreciate that not all of the issues discussed in this letter will be applicable to your institution. Nonetheless, we hope that you find the information useful as you review your institution's compliance with the Consumer Protection Code.

Should you have any queries in relation to the contents of this letter, please contact Joe Morley at [joe.morley@financialregulator.ie](mailto:joe.morley@financialregulator.ie).

Yours sincerely

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