One Out of Five Critical Illness Insurance Claims Are Denied: Which Changes Should Insurers Make?

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The Autorité des marchés financiers (AMF) has recently published a study that it conducted with the largest active insurers in the Quebec insurance industry, entitled “Critical Illness Insurance Supervisory Report”[1] (hereafter the “**Report**”).The study reveals surprising statistics that have led the AMF to issue recommendations for changes to critical illness insurance: Insurers must try to better explain insurance products to consumers in order to help them better understand the policies they are buying.

Critical illness insurance

Critical illness insurance is insurance that consumers can purchase for themselves or a loved one.

It provides for the payment of a sum of money should the insured suffer from a critical illness that matches the definition set out in their insurance contract. The illnesses that are typically covered by this type of insurance are cancers (at a life-threatening stage), heart attacks and strokes.

In general, the following principles apply to critical illness insurance:

- Each policy has a list of illnesses it covers.
- An insurance policy may also specify exclusions to covered illnesses.
- When an insurance policy covers a critical illness and no exclusions apply, it may have other conditions such as a waiting period[2] or a survival period,[3] which can vary from one insurance policy to another.

AMF findings

The AMF found that insurers deny one out of five critical illness insurance claims.

In its Report, it notes that, in general, consumers face several issues with critical illness insurance, both in terms of understanding the product and with its purchase. These issues appear to result from the lack of information, clarity, support and consumer understanding.

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Covered illnesses and their characteristics differ from one product to the next and from one insurer to another. This makes it hard for consumers to easily compare available products.

Moreover, the language used to describe products and draft policies is often complex.

Insurance policies also contain many limitations and exclusions (such as pre-existing conditions) and various time limits that can be hard to grasp.

AMF Recommendations

Based on its findings, the AMF has developed five recommendations for insurers, and it expects insurers to apply corrective action. For the time being, the AMF does not intend to apply sanctions, but says that it will "take appropriate action when required."[4]

1. Avoid situations where prepared materials and advertising result in confusion for consumers or in an incorrect understanding of the product

   Insurers must exercise care in how they use statistics and slogans in their materials and advertising. The AMF believes that certain forms of advertising can lead consumers to misunderstand the provided coverage because of statistics and slogans that are broader than the actual coverage set out in a contract.

   Insurers must keep to information that is relevant to the actual features of the product offered. The AMF insists that "it should not appear to consumers as if the product covers more than it really does or as if they require more insurance than they really need."

2. Better help consumers properly understand the product

   An insurance policy may cover different illnesses and may contain varying features. The vocabulary used in critical illness insurance contracts is often technical and specific to medical and insurance fields.

   Insurers should provide relevant and complete information written in accessible language to avoid confusion with the insured.

   The AMF suggests that insurers make tools such as guides, glossaries, summaries, illustrations and timelines available to help consumers better understand the features of their insurance policies, the scope of their coverage and any limitations, exclusions, time limits, and so forth.

3. Provide insureds with post-purchase assistance

   The AMF indicates that support after purchasing critical illness insurance is key to help the insured better understand their rights and obligations and when to exercise them.

   It suggests that insurers implement post-purchase information communication mechanisms, such as making information available on a secure website, periodic statements or reminders of options that can be exercised.

4. Better equip the distribution channels to appropriately advise their clients

   The AMF stresses that the various distribution channel stakeholders must be able to provide clear and relevant information to the insured over the entire lifecycle of the product.

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To do so, insurers should improve their training programs and provide appropriate reference tools to their distribution channels, which could include product features, the target client group for each product and a comparison with other types of products to assist customers in making choices.

5. Facilitate the claims, complaint examination and dispute resolution processes

   Insurers must ensure that they provide sufficient information to the insured and fairly process claims.

   The AMF suggests that insurers make claims processes and claim forms easily accessible on their websites. The reasons for denying a claim should also be clearly explained in the letter to the insured, and the letter should outline the next steps, such as the opportunity to request a review or to file a complaint.

Conclusion

Insurers offering critical illness insurance products should implement the recent AMF recommendations to better inform consumers on their rights and obligations and on products offered and the coverage they provide. By implementing the AMF's suggestions into their critical illness insurance activities, insurers will not only reduce the claims denial rate in the industry, but also avoid potential litigation.

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1. Autorité des marchés financiers, *Critical Illness Insurance Supervisory Report* (Report), Québec City, 2021. [Report]
2. Time period that must elapse before critical illness coverage comes into force after the insurance policy is issued.
3. Time period that must elapse before compensation after a critical illness is diagnosed.
4. Report, p. 7.

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