



Better off dead? The need for critical illness cover

Our recent webinar, [Better Off Dead? The need for critical illness cover](#), explores an unfortunate reality for many families impacted by a loved one developing a critical illness.

Without critical illness cover, families are often left with significant financial strain and may even have been financially better off if their loved one hadn't survived, but clearly the emotional impact is devastating.

A history of Critical Illness Cover

Critical illness cover (CIC) was developed in 1983 by Dr Marius Barnard in South Africa and was designed to provide financial support upon the diagnosis of life-changing or life-limiting conditions. He persuaded a life insurer called Crusader Life to develop the world's first critical illness insurance policy, which quickly started to gain traction outside of South Africa and was brought to the UK just two years later.

The stats don't lie

The webinar highlighted some important figures, revealing a significant gap in protection cover particularly among renters and homeowners, highlighting the need to recommend comprehensive cover to your clients.

- Only 11% of renters have critical illness cover.
- 33% of homeowners with a mortgage have this cover.

While it's true that renters may not have a substantial amount to protect like homeowners with mortgages, they still face significant monthly expenses, including rent and utility bills. The majority of people still have the aspiration to buy their own home so if critical illness occurs, individuals may have to dip into those well-earned savings to pay rent, cover their food shop or pay utility bills. Thus, highlighting the importance of having the right policy that will replace the loss of income with minimum impact on savings.

Impact of CIC on income

By offering a steady income rather than a lump sum, this type of cover can provide more practical financial support during challenging times. Income-based CIC can be particularly beneficial for certain client groups:

- **Parents with private school fees:** Ensuring that children's education costs are covered even if a parent falls ill.
- **Divorced individuals paying child maintenance:** Protecting ongoing financial commitments.
- **Renters:** Providing a safety net for monthly expenses in the event of illness.
- **Families saving for a home:** Preserving savings earmarked for a deposit.

Income protection vs critical illness cover



Advisers frequently face the question of whether to recommend critical illness cover or income protection. This could include, but not limited to, if they have a mortgage, do they need a lump sum or if they had a critical illness, what's their employee benefits? The ideal solution often involves a combination of both, tailored to the client's specific needs and circumstances.

It's important to describe the role of critical illness and income protection to clients to help them inform decisions. A client's budget is also a key factor that needs to be considered and providing quotes to compare lump sums of critical illness versus income-based critical illness and income protection will help clients to make an educated decision. A multi-benefit solution can offer comprehensive protection, reducing the risk of policy cancellations and enhancing client retention.

Talking about critical illness to business owners

For business owners, critical illness cover is crucial for both business continuity and succession planning. Key person protection can safeguard the business's financial stability while shareholder protection ensures fair value for shares and maintains control within the company. Advisers should discuss these options with business owner clients to ensure their enterprises are adequately protected.

There are probably only three exit strategies an adviser may want to raise with the client when facing critical illness and some questions to consider:

- **Sell their shares of the business to fund retirement:** how much is their share worth? Who might buy the company? How attractive is the business?
- **Leave their share of the business to their partner or children:** are they interested in taking over? Do they have the skills to be able to run that business?
- **Work to the end:** is it a viable option? How is their health now? What is their health going to be like in the future? Could it also affect their contributions to their pension?

Children's critical illness cover

This feature allows parents to focus on their child's recovery without the added stress of financial worries. Advisers should highlight the flexibility of these policies, which can be adjusted as family circumstances change. Children's CIC, typically added to an adult policy, pays out a percentage of the adult's sum assured. Just like partial payments, it doesn't impact the adult's policy.

It's important to note, that some insurers, allow children's cover to be added or removed without the need for additional medical evidence. This could be imperative for clients who don't yet have children and clearly couldn't make a claim on currently. Alternatively, if your client's children have grown up then you might want to remove them from the plan, giving the client total flexibility.

Looking at some research that's been done around families sadly with a sick child in hospital:

- 28% said they'd gone cold to avoid using heating at home and increasing those fuel bills.
- More than 40% had asked families or friends if they could borrow some money.
- 58% that said that they had cut back on non-essential spending.

These statistics stress the importance of having these types of conversations with both clients with children and those who plan to start a family in future.



Conclusion

The webinar explored the importance of critical illness cover. For financial advisers, the key takeaway is the necessity of discussing this type of protection with all clients, regardless of their circumstances. By highlighting the benefits and addressing potential gaps in coverage, you can help clients build robust protection portfolios that offer peace of mind and financial resilience in the face of life's uncertainties.

For more information please check out our webinar - [Better off dead? The need for critical illness cover CPD - Royal London for advisers](#)