General Underwriting

The underwriting process for life insurance can be confusing. There are many “moving parts” and a variety of requirements needed to complete the underwriting process. Additionally, insurance carriers rely on a number of third party services to obtain information related to your client’s application for insurance.

This collection of educational pieces was designed to help you, your staff and your clients better understand the process of assessing risk.

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For your client to obtain his/her lab results

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Understanding financial justification

Tips for Faster Turnaround
Helpful reminders to avoid delays in the underwriting process

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CALL US TODAY FOR GUIDANCE WITH YOUR NEXT CHALLENGING CASE!

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How Underwriting Works

The insurance company receives your application and the review of your personal information begins. You will be contacted by an examination service to schedule your insurance exam. The exam can be scheduled at your home or place of employment and includes your height and weight, blood pressure and pulse. Urine and blood samples are collected. You will be asked a series of health and lifestyle questions. Depending on your age and amount of insurance, an electrocardiogram (EKG) may be required. The results of this exam are then sent to the underwriters (risk auditors) at the insurance company. Medical records from one or more of your physicians may be ordered by the insurance company. Your motor vehicle report will be ordered. Once all of the information is collected, an underwriter will evaluate your entire file to determine your underwriting classification. If your application is approved, your insurance professional will deliver your life insurance policy detailing the amount of coverage, duration of protection and actual premiums calculated for your underwriting classification.

All of the information obtained during the exam and underwriting process is strictly confidential and is for insurance purposes only.

Medical and Lifestyle Underwriting

Underwriting classes are determined by a number of factors including:

- Health history
- Height to weight ratios
- Family history (parents and siblings)
- Tobacco use
- Alcohol and/or illegal substance consumption
- Mental Health
- Driving and arrest history
- Vocation
- Avocations such as aviation, scuba, rock climbing, racing, etc.

Financial Underwriting

Underwriters apply financial guidelines to ensure there is “insurable” interest between the proposed insured and the owner. They also assess current/projected wealth to make sure the amount issued is appropriate to the purpose of the sale. Depending on your age and the amount applied for one or more of the following may be required: Telephone interview, Inspection Report, Third Party Verification, Financial Report, Trust Certification. Your insurance professional can provide you with more details.

Preparation for your Insurance Exam *(20-30 minutes. 45 minutes if an EKG is required.)*

- Get a good night’s sleep.
- Avoid strenuous workout 24 hours prior to exam.
- Avoid drinking alcoholic beverages for at least 8-12 hours.
- Provide your driver’s license, or if you do not have one, a picture ID.
- Try not to eat any food 2 hours prior. If at all possible, fast for 12 hours.
- Drink a glass of water 2 hours prior. This will help produce a urine sample.
- Do not smoke or drink coffee for at least 1 hour before your appointment.
- Write down past medical history, physicians involved in your care, along with their address, phone, dates seen and reason for visit. Include current medications – dose and frequency.

Blood pressure and pulse can be artificially raised by stress, alcohol, caffeine and tobacco.

Lab Release Form

This form may be completed if your client wants to receive the lab results from his/her insurance exam.

____
Date

____
Name of Carrier

____
Policy Number

I ______________________________ am requesting a copy of my lab results.
Proposed Insured's Name

Please send a copy to the following address:

____
Attention

____
Street Address

____
City, State, Zip

Thank You,

____
Proposed Insured's Signature

Please return completed form to:

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MIB & Prescription Drug Database

Life and Health insurance companies use powerful resources for evaluating whether to cover individual consumers: a health "credit report" drawn from databases containing medical and prescription drug records.

MEDICAL INFORMATION BUREAU (MIB)

The MIB is a computer database, which contains medical and certain non-medical information pertaining to some individuals who have applied for insurance coverage. The major purpose of MIB, Inc. is to provide an information exchange among member insurance companies to prevent loss due to fraud or omission. MIB reports are submitted only by member insurance companies and are available only to member insurance companies with the written authorization of the person to whom the information pertains. Physicians are not a direct source of information to the MIB. The MIB has over 600 member companies.

MIB's principal function is to detect and deter fraud in the procurement of life, health, disability, and long term care protection, which allows for these products to be reasonably priced for those people who desire coverage. This information alerts member companies of certain medical, driving, and avocation histories, which might impact the basis on which an insurer offers coverage to a prospective insured. This is done in a coded fashion to protect the privacy of the proposed insured. Only authorized personnel of a member company may access MIB records. Contents are never released to credit or consumer reporting agencies.

MIB information does not entitle the member company to forgo its own underwriting investigation; rather, it serves only to alert members to possible significant exam information which the member company will need to confirm before making a final decision. The MIB report will be used only as a starting point to begin an investigation, which will help protect insurers and the policyholders from losses due to fraud or omission. This in turn improves the companies' experience and allows for better product pricing.

By signing the authorization form (as required by HIPAA) contained in the insurance application, applicants authorize the MIB, Inc., pharmacies and medical vendors to release the above information to the member insurance company.

The applicant may request a free copy of their MIB and/or prescription drug reports and initiate correction in the rare event the need to do so exists.

PRESCRIPTION DRUG DATABASE

Access to a prescription drug database enables underwriters to better assess risk and investigate claims. These electronic reports quickly and accurately provide the underwriter with a detailed history of the applicant's use of prescription drugs and certain medical equipment. If the report shows a prescription history, it will provide the names of medications, the dosages, and the prescribing physicians.

Insurance carriers set their own criteria (age, face amount, time since last doctor's visit) for determining if and when they will order prescription records. The profiles typically include the results of a five-year history search which assist the underwriter in uncovering possible diagnoses, along with omissions on the application or insurance exam.

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FINANCIAL UNDERWRITING

When assessing a new life insurance application, underwriters apply financial underwriting to ensure there is insurable interest between the proposed life insured and the owner. They use the following tools (and others) to assess current and projected wealth, age and face amount to make sure that the amount issued is appropriate and justified given the purpose of the sale.

Telephone Interview

This is an independent interview conducted with the life insurance applicant. Questions will be asked related to the purchase of life insurance such as occupation, health history and avocations. These calls are usually recorded. The representative who calls the applicant will not have access to the application. While some of the questions may seem redundant to what has already been indicated on the application, the telephone interview helps the carrier corroborate written information that has been received as well as obtain additional information that will help in the underwriting process.

Inspection Report – *typically for higher face amounts and older ages*

In addition to the direct telephone interview of the life insurance applicant, this report includes a public records search for:

- *General health status and history*
- *Employment background*
- *Habits and Avocations*
- *General finance questions*
- *Bankruptcy, liens and lawsuits*
- *Verification of Social Security number*
- *Third-party verification of income and net worth. See details that follow.*

Business Beneficiary Report

This report provides details about the nature and financial status of a business. Ownership shares must be delineated. In addition, details about loan agreements and projections on new business ventures should be included. Questions that may be asked:

- *Date of incorporation*
- *Number of employees*
- *Officers and % of ownership*
- *Purpose of insurance*
- *Other Insurance in force*
- *Fair Market Value*

Trust Review Process

A review of Trust documents assists carriers in determining the presence of insurable interest.

When is it required? A review of a Trust Certification form and/or actual Trust document is required on any policy where a Trust has been identified as the Owner/Beneficiary.

What is required?

- *Typically a completed Trust Certification form and/or a copy of the executed Trust document.*
- *Underwriters may also review documents on certain policies including but not limited to Trust, Family Partnership, and LLC agreements prior to policy issue.*

Third-Party Verification *– typically for higher face amounts and older ages*

A valid financial reference is used to obtain verifiable details about income and net worth. Acceptable sources for third-party verification include a financial advisor, accountant, tax attorney, banker or any other advisor who has legitimate access to the client's true financial situation (but who is <u>not</u> connected to the insurance sale). Required details include:

- *Length of relationship.*
- *CPA or Attorney license number if applicable.*
- *Confirmation that the call is being recorded If third-party financial verification is obtained via the telephone interview/inspection process or:*
- *Signature of the CPA or Attorney on "third-party financials"*
- *Detailed breakdown of assets for any asset type that comprises more than 40% of insured's net worth, e.g. address/description of each real estate holding and ownership interest in same; details on how the value of property is determined.*
- *Income, earned and unearned, including source of income.*
- *Additional information may be required, for example, copies of insurance policies for jewelry or art when such items compose a significant portion of declared assets.*

General Financial Underwriting Guidelines

This is intended as a quick overview and is not a complete set of guidelines – please contact us to discuss your specific case.

Income Replacement – This is a function of current income and age of the insured.
Estate Settlement – There are many variables that determine the amount of insurance needed for estate planning purposes and often involved input from the client's attorney, tax advisor, etc.
Key Person Coverage – Generally based on a multiple of salary. 5-7x is common but more can be negotiated with proper justification.
Buy-Sell Arrangements – The fair market value (FMV) of the business is the determining factor. The most common formula to determine the amount of insurance is FMV x % of ownership.
Business Loan Protection – Underwriters will typically cover only a percentage of the outstanding debt. 60-75% is common.

Cover Letter

Since you, as the advisor, know your clients best, you are a key source of their financial information. A cover letter is recommended with all applications; it is your chance to explain the background of the sale including:

- *The purpose of coverage and how the insurance amount was determined.*
- *Clarification of any points that may not be obvious in the application.*
- *Details that will help the underwriter understand the need for life insurance and the amount requested.*

Contact us with questions about financial underwriting. The guidelines vary with each scenario and we can walk you through the details of your next case!

Tips for Faster Turnaround

CONTRACTING & LICENSING

- ✓ Are you properly licensed in the state where you intend to write business?
- ✓ Are you contracted with the intended carrier(s)?
- ✓ Do you have E&O coverage?
- ✓ Have you completed the Anti-Money Laundering training?

CORRECT PAPERWORK

- ✓ Are you using the latest version of the application and the correct state forms?
- ✓ Are all forms signed and dated by the insured, policy owner and agent(s)?
- ✓ In addition to the application, do you have all the necessary forms? (e.g. Replacement, HIV, 1035 Exchange, EFT, Trust Verification, HIPAA Authorizations…)

The most common delays in the application process are due to incomplete paperwork. ***ALL questions must be answered and ALL required forms must be provided.*** *Unanswered questions mean repeated follow-up with your client during the underwriting process. If you have concerns about what information to provide, call us. We'll walk you through the process!*

ATTENTION TO DETAIL

- ✓ Are all questions on all forms answered completely and are they legible?
- ✓ If collecting money, make sure to submit the Conditional Receipt/TIA, and be certain you understand the carrier's criteria for binding coverage.
- ✓ If collecting money specifically for Genworth or Banner, make sure all dates such as the Application, Conditional Receipt and check are dated the same date or they will return the premium to your client. They will not accept money if anything on the application is crossed out or if white out is used.
- ✓ For all other companies, if you need to cross anything out please make sure the client's initials are next to the mistake.
- ✓ When using another company's exam make sure to have the non-medical form completed for the new carrier.
- ✓ For business or complex cases please provide a cover letter explaining the purpose of insurance, unique elements of the case, and how the amount was determined.
- ✓ Please submit to LGA a copy of the illustration with the application so that we understand what has been "sold" to the client.

ADDITIONAL REMINDERS

- ✓ LGA will order exams & medical records for your cases, unless you notify us otherwise.
- ✓ If replacing inforce coverage remind your client:
  - NOT to terminate that coverage until the new coverage is approved and put inforce.
  - To notify the original carrier to terminate the replaced insurance after the new coverage has been put inforce. This does not happen automatically.
- ✓ Commissions are paid:
  - After the policy has been issued.
  - After all delivery requirements (including premium) have been received at LGA.
  - After the carrier receipts the delivery requirements in their system.
  - Within the cutoff period for the carrier's commission cycle.

This is intended simply as a reminder of detailed items that are necessary to process your cases. It is NOT a complete set of instructions. Please contact us if you have questions or if you would like a more thorough explanation.

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