

Field Underwriting for Life & Health Insurance

1. Key Concepts and Definitions

- a. **Insurance** – Transfer of Risk
- b. **Agent** – Producer or Field Underwriter
- c. **Insurer** – Principle
- d. **Agency Contract** – between Agent and Insurer – spells out each one's duties – contains the Express Authority (written in the contract)
- e. **Applicant/Proposed Insured** – seeks insurance from insurer
- f. **Death Benefit** – Face Amount – paid to a beneficiary
- g. **Beneficiary** – receives the policy proceeds when insured dies
 - i. There can be more than 1 beneficiary
 - ii. Is not a party to the contract – doesn't have to sign
- h. **Policyowner** – has all of the rights and privileges in a policy
 - i. Paying premium, making changes, naming beneficiary
 - ii. May or may not be the insured
 - iii. 3rd Party Ownership – when insured and policyowner are different people
 1. Parent/Child
 2. Key Person
 3. Group Life/Health

2. Completing the Application

- a. **Application is main source of underwriting**
 - i. **Part 1 - General Part 2 - Medical**
- b. **Agent Report** – part of the application process, but does not become part of the contract
 - i. **Entire Contract Provision** – Application, Policy, Riders and Amendments
- c. **Has to have at least 2 signatures** – agent and insured
 - i. Possibly 3 – 3rd party ownership
- d. **Changes in an application**

- i. Producer marks out mistake – Applicant initials
 - ii. Don't use white-out!
- e. **Incomplete application** – needs to be returned to the applicant to have question answered
 - i. If not caught and insurer issues policy – They have waived their right to ever have that question answered and cannot deny a claim because of the incomplete application
- f. **Representations** – statements by applicant that are believed to be true but not guaranteed
- g. **Misrepresentations** – Lies told by applicant
 - i. Small lie that wouldn't affect the underwriting
 - ii. Big lie that would – Material misrepresentation
 - iii. Warranty – absolutely true statement upon which the validity of the insurance contract depends
 - iv. **Fraud** – could void the policy if within the first 2 years
 - 1. Life – after 2 years – claim cannot be denied (Period of Incontestability)
 - 2. Health – claim can be denied as long as policy is in force (Material)
- h. **Conditional Receipt** – only given to insureds who pay premium with application
 - i. No premium – No coverage
 - ii. Coverage could be effective as early as the date of application, if it needs to be
 - 1. As long as they would have approved anyway and premium was paid
 - iii. Coverage effective date: Date of application or date of medical exam, whichever occurs last
- i. **No premium paid with application**
 - i. Producer delivers policy
 - ii. Insured signs a Statement of Good Health

- iii. Any Amendments(Counteroffer) signed
- iv. Premium gets paid – Coverage becomes effective

j. Policy Replacement

- i. Stop paying on one policy to start paying on a new policy
- ii. Notice Regarding Replacement – signed by agent and applicant
- iii. Health policy – don't cancel old policy until new one is issued

k. Disclosures at the Point of Sale

i. Disclosure Authorization Notice

- 1. States the insurers practice regarding the collection of personal information

ii. HIV Testing – usually for large amounts of insurance

- 1. Results can only be known to; insured, their doctor, insurer, Dept of Health and Human Services

- a. **Other insurers** cannot have access to results

iii. Policy Summary – summarizes **features and elements** of policy being issued

iv. Buyers Guide – Generic information

- 1. Explains how a buyer should go about choosing the type and amount of insurance to buy
- 2. Given at time of application

I. USA Patriot Act/ Anti-Money Laundering

- i. Financial institutions are subject to Act
- ii. Transactions in excess of \$5,000
- iii. Must file a Suspicious Activity Report – SAR
 - a) Must be filed within 30 days of **initial discovery**

Underwriting – Risk classification process

i. **Insurable Interest** – policyowner must face the possibility of losing money or something of value in the event of loss

1. Must exist at time of application but not when a benefit gets paid - between **Owner and Insured**
2. Beneficiary doesn't have anything to do Insurable Interest
3. Main thing that an underwriter will be concerned with

ii. **Sources of Information**

1. Application and Agent Report

2. Paramedical Exam – results give current health status

3. Attending Physician Statement (APS) – gives past health information

4. Medical Information Bureau (MIB) – adverse medical information

- a. Made up of insurers – non-profit organization

5. Consumer Reports – Credit reports, employment records

- Inspection Reports**
- a. Written or oral information concerning a consumers credit, character, reputation and habits

6. Investigative Consumer Reports – same as Consumer Reports

- a. Interview friends, associates and neighbors of consumer
- b. Must be notified within 3 days report is taking place
- c. Consumer wants more information – 5 days to get that to them

7. Fair Credit Reporting Act – established procedures that consumer reporting agencies must follow to ensure that records are confidential, accurate, relevant and properly used

- a. Allows consumer to contact reporting agency to get information about why they might have been declined
 - i. Can't get information from insurer

b. Maximum fine for violating Act is \$2,500

iii. Risk Classification

1. **Standard** – representative of the majority of the people in the same class – covered at a standard rate
2. **Substandard** – High risk because of health or avocations
 - a. Rated Up – pays more money
 - b. Policy issued with an Amendment or Counteroffer
 - c. Insured doesn't have to take the policy
 - d. Must sign Statement of Good Health, Amendment and pay extra premium
 - i. Coverage would become effective at that time
3. **Preferred** – Healthier lifestyle
 - a. Pays a lower premium than Standard
4. **Declined** – Too high of a risk because of health or avocations

iv. Stranger Originated Life Insurance – STOLI

1. Taking out a policy on a person with the intent of selling it to a 3rd party and profiting financially
2. Outlawed in most states – Violates the concept of Insurable Interest

v. Investor Originated Life Insurance – IOLI

1. Basically same as STOLI
2. Violates the concept of Insurable Interest

n. Elements of a Legal Contract – COAL

- i. **C – Consideration** – something of value each party promises to the other
 1. Insured – answers on the application and payment of premium
 2. Insurer – promising to pay in the event of loss

ii. O – Offer – there must be a definite offer by one party and it must be accepted in its exact terms by the other

1. Applicant – completing the application and paying the premium
2. Insurer – If no premium was paid with the application – company makes an offer to applicant in the form of the policy

iii. A – Acceptance

1. Insurer - Occurs when an underwriter approves the pre-paid application
2. Insured – policy gets delivered and premium gets paid

iv. L – Legal Purpose

1. Life insurance – Insurable Interest and Consent
2. Must be of age, not high or drunk
3. Mentally competent to understand the contract

o. Unique Aspects of Insurance Contracts

- i. **Conditional** – certain conditions must be met by both parties
- ii. **Unilateral** – only one of the parties is legally bound
 1. Insured doesn't make any legally binding promises
 2. Insurer is legally bound to pay for losses
- iii. **Adhesion** – Take it or leave it – there are no negotiations
- iv. **Aleatory** – unequal amounts are exchanged

Field Underwriting Procedures Key Facts

- Although the producer must sign the application, he or she is not a party to the contract. It is the responsibility of the producer to explain the policy provisions, riders, and exclusions to the client
- The applicant's consideration is both the answers on the application and the premium. In return, the insurance company promises coverage. Consideration does not have to be equal.
- Coverage can NEVER begin unless the premium has been paid. And even though the premium has been paid, coverage will NOT start until the client has satisfied all of the conditions of the conditional receipt, if any.
- The earliest that coverage COULD start would be the day of application, assuming the client paid the first premium, had no conditions to fulfill, and had not lied.
- Surcharges (rate-ups) may be accomplished by using a rate charge for a higher age, a different sex, a flat fee, or a percentage adjustment to the manual rate.
- A surcharge is an example of a counteroffer. There is no coverage until the client accepts the policy at the higher rate and pays the increased premium.
- A rate-up or surcharge may be charged every year for a dangerous hobby. This is NOT a one-time fee, but a surcharge per \$1,000 of coverage.
- An incomplete application is usually returned. However, should the underwriter approve it as is, coverage begins. If this occurs, the company gives up some of its ability to contest a claim.
- Although a conditional receipt may be issued, coverage does not begin until the client meets all of the conditions and the application is approved.
- Insurable Interest must exist at the time of application, but not necessarily at the time of a claim.
- An absolute guarantee of truth is called a warranty.
- A Buyer's Guide and Policy Summary must be left with the applicant prior to accepting the initial premium.
- Insurable interest may be based on economics or family relationships.
- The underwriter determines the final rating classification, not the producer.
- The MIB collects claims information.
- The Fair Credit Reporting Act is a federal law. It does NOT guarantee that the information in the report is correct.