



What you need to know about... life insurance underwriting

Underwriting a life insurance policy is similar to making any significant investment—a lot of time and research goes into the decision-making process. The insurance company reviews all applications for life insurance carefully to decide which ones they want to accept and how much to charge each insured. Simply put, it is a risk assessment, selection, and classification process.

Risk assessment and selection

A carrier's main risk is an early death claim (when an insured passes sooner than expected). Life insurance carriers invest premiums from life insurance policies, and premature death payments remove money from the investment pool, lowering returns. It is this mortality risk that an insurance carrier seeks to control through the underwriting process. The higher the risk of an early payout, the higher the premium charged for coverage. Consequently, if the risk of a payout appears immediate or an estimate cannot be made due to a preponderance of risk factors, the life insurance carrier will likely choose to avoid making an insurance offer.

The risk factors that carriers concern themselves with in their underwriting assessment can be broken down generally as medical and non-medical. Medical risk factors include both a client's current and past health history. Non-medical risk factors include avocations, occupations, tobacco use, and travel.

Underwriting begins with a formal application for life insurance and completing routine requirements. The routine requirements depend on an insured's age and the amount of life insurance desired and can include labs, a physical exam, medical and driving records, and/or financial information.

As your client goes through the underwriting process, should other information arise concerning the life insurance company, your client may be asked to complete additional requirements. For example, if it is discovered in the medical records that your client is an avid skydiver, the insurance carrier may ask your client to complete an avocation questionnaire. Once all requirements are reviewed, if the insurance carrier considers an offer for insurance, your client will be placed in a particular risk class and asked to pay a specific premium for the coverage.

Risk classification

Risk classification is designed so applicants pay their fair share of the premium. Higher risks pay higher premiums; lower risks pay lower premiums. Each class is made up of insureds with similar expected mortality. For example:

- Preferred class—better than average expected mortality
- Standard class—average expected mortality
- Sub-Standard class—worse than average expected mortality



Insureds who appear to represent too significant a risk are not accepted, and their applications are either declined or postponed for reconsideration at a later date. Mortality and probability statistics help make this moderately predictable for insurance companies.

Finally, it is essential to remember that because the insurance company's financial health can impact how well individual policies perform, it is in everyone's best interest to work through the underwriting process patiently.

Clinical vs. insurance medicine

Clinical medicine deals with the diagnosis and treatment of diseases and the maintenance of a patient's health. Insurance medicine deals with risk selection and classification based on an insurance company's underwriting manual.

Having "a clean bill of health" from a medical doctor does not necessarily mean your client will get the lowest premium from an insurance company. The rate your client receives depends on their medical history and how the insurance company prices those specifics. For example, the medical doctor may feel that skin cancer from eight years ago is no longer something to be concerned about and will not shorten life expectancy. However, an insurance carrier may not offer the lowest premium—a standard class premium. It is important to remember that Standard to a life insurance company does equal an expectation of average life expectancy, just not better than average.



Questions

Contact your Crump underwriter to learn more about life insurance underwriting.



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