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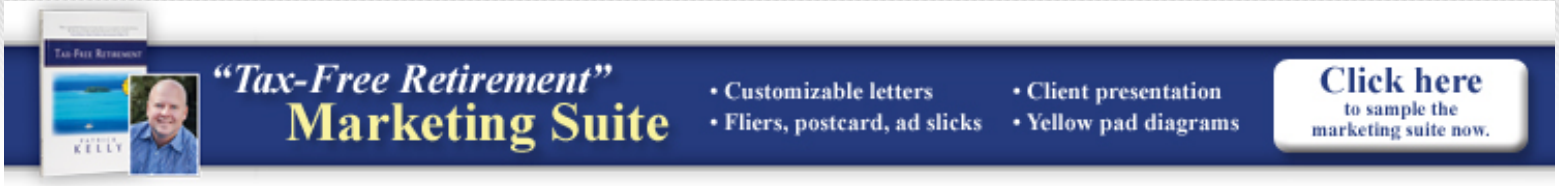

Impaired risk underwriting: Behind the scenes

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Working directly with clients and prospects is every producer's primary task. But just as evaluation, fact-finding and technical capabilities are essential for successful selling, there's another critical, but often overlooked skill set required for sizing up the potential issues involved in the life underwriting process. While this often occurs toward the end of the sales cycle, it's important since it can often create a "make or break" result.

The producer

At the very least, producers need to have a working knowledge of the potential medical issues and their relative effect on the sale. Since it is the producer's task to manage client expectations to obtain the optimum result, open communication is essential.

There are several ways to obtain the necessary information. It may be a short-form medical questionnaire, one coupled with a HIPPA authorization (to secure attending physician records) or a Part II on a life application.

Tentative offers, secured by an advisor without making a formal application, can be used as a sales tool. If a quick quote for a particular impairment is needed, a specific questionnaire is often available. In addition, there are a number of services for quoting available through a Brokerage General Agent (BGA).

Here are several helpful quoting tools:

• There are a number of quoting systems that can compare the medical and general underwriting criteria for various carriers. Compulife software is used primarily for shopping term life insurance. It determines rate classification based on information on blood pressure, cholesterol, family history, tobacco usage, driving history and records and height and weight information. It tells a producer the criteria needed for the carrier to make or miss a rate classification. The software can also illustrate costs for various carriers for term and universal life.

• NAILBA's Field Underwriting Guide includes a questionnaire for individual impairments. This can be useful in determining the pertinent risk factors and concerns for each impairment.

• The use of your BGA's phone line for quick quotes and specific carrier underwriting is a fast way to obtain answers to the "I got a guy" questions.

• XRAE access for quoting can determine each carrier's approach to a particular risk. This software is populated with questions and answers for each impairment covered and can serve as an effective way to access companies quickly. This is good for single impairments and can be accessed without cost through a BGA.

• Informal process. A producer or a BGA secures APS and carrier offers. This preliminary and more discrete process often saves time and is more rewarding than simply submitting to one carrier and hoping for the best. This strategy works best when preceded by a summary and a phone call to the underwriter.

Life insurance companies

Each insurance company has its own model. One carrier may be larger, another may have more capacity for retention, a third may have a special ability and understanding for specific risks, while yet another might have made specific arrangements to secure a higher risk offering a lower rating through special treaties.

Very often, results and offers can be more subjective than one might expect. At the same time, a relationship with an insurance company or underwriter can also make a difference. Whatever the circumstances, it's beneficial to have a total grasp of what is possible with as

many insurance companies as possible and to be diligent in maximizing the possibilities with each carrier.

Insurance companies can offer a variety of underwriting programs. Here are some examples:

• Table shaving: A number of carriers will offer a reduction in their underwriting assessment on their universal life (UL), survivorship universal life (SUL) or whole life (WL) products up to age 70 with a table rating of C. This can reduce the rate to a standard non smoker rate for up to $10 million per carrier.

• Use of available credits: Knowledge of the mechanics and workings of underwriting credits is invaluable in securing the best offer. Insurance companies have a wide array of credit programs — most of these are unique to a particular company. Sometimes a carrier will treat its credit program as classified information or as its “private insurance recipe” for impaired risk underwriting and they can be unusually proprietary about them to the point of obscuring all the details. It’s important to note that some credit programs are available up to age 75 or 80 and others may be available with a few carriers for term life insurance as well as permanent coverage. A few companies offer their credits in conjunction with table shaving. When this occurs, the proposed insured can benefit by having a manual rate of Table 5 or Table 6 offered with a standard non-smoker policy. Some insurance companies have a maximum of four credits or tables available. Others will credit policies up to a Table 6. They will not apply credits when the risk is higher than a Table 6. Other programs offer up to three tables with no credits for certain impairments.

• Niche programs: An insurance company will often carve out a unique underwriting niche where there is little or no competition in their underwriting offer. Niches include liberal treatment for physical build, family history, hobbies, tobacco usage, controlled high blood pressure, bad habits, driving records including DUI, alcohol use, financial underwriting multiples offered and cholesterol and others.

• Upgrade programs: One program will offer an upgrade from standard to preferred on permanent coverage if the case is a standard rate before credits. Another company will offer a conversion of its term with a Table C to a standard non-smoker UL policy if converted within three years. Cigarette smokers can obtain non-smoker UL rates for three years as a non-smoking incentive. Another carrier upgrades its term or UL one class to a standard plus or preferred non-smoker with the use of a credit.

• Use of reinsurance: Many captive producers’ first experience with reinsurance is when they are told that the company can use its reinsurers to determine if there is a better offer than secured with their formal application. Usually, the request for an insurance

company to check with reinsurance places the original offer in jeopardy if none of the reinsurers see the case as good as the primary carrier. If that happens, the underlying company will rescind their offer. This calculated risk can result in an improvement in the original offer. In one instance, an insurance company allows for and assists with reinsurance without jeopardizing the original offer. The skilled use of reinsurance is critical when dealing with cases that are larger than a carrier's retention or in Jumbo cases where the use of reinsurance creates its own issues. This can be more challenging when you have a rated case. It's equally important that the BGA and producer have excellent communication and that the producer and the client have an open dialogue to obtain the best offer.

• Manual underwriting: Insurance companies use one of several nationally or internationally recognized underwriting manuals, which are provided by reinsurers. Conservative companies will select a manual that fits their risk preferences. They will modify the manuals to fit their specifications, experience and understanding of specific medical risks and, in general, the medical field and innovations in health care. These modifications make for a dynamic approach in underwriting risks such as cancer and heart disease.

• Simplified issue underwriting is used in underwriting permanent coverage on both single life and a multi-life basis. The single life uses may even offer up to 6 tables to standard underwriting. There are a few questions and this is done on a non-medical basis up to $250,000 per carrier depending on age. The multi-life use is used for 5 lives for business cases. Again, there are usually only a few questions and non-medical underwriting is used.

• Guaranteed Issue is used for single life and multi-life cases: Guaranteed Issue is used for single life coverage when the proposed insured is considered uninsurable. A number of carriers will offer Guaranteed Issue policies with graded death benefits. For multi-life corporate cases, carriers are willing to offer Guaranteed Issue permanent coverage for a "carve-out program" in amounts that are limited by the company's rules and the number of participants in the plan.

Access needed for case solution

No single insurance company can be expected to have the solution for every need, which is why it's essential, when dealing with impaired risk cases, to search the market for the most appropriate solution to help the producer secure the best possible option.

This methodology is a core practice of BGAs. Producers should expect a BGA contact to serve as their "trusted guide" — someone who educates, assists and follows through until

arriving at the desired destination. This should be someone who is prepared to help a producer recognize and understand possible pitfalls, assist in diagnosing the possibility for success and solve problems as they arise. Basic to this process is a BGA's knowledge of each insurance company's potential, people and capabilities. Unless this expectation is fulfilled, the best possible offer will remain illusive.

Good salesmanship, teamwork, access to all markets and use of available resources enable producers to prowvide optimum service to their clients.

Understanding impaired risk underwriting from "behind the scenes" can help producers act confidently with the knowledge that they are providing the best possible impaired risk solution. Equally important, it will enhance their practice and create new opportunities.

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