The History of Impaired Risk Underwriting
Insurance carriers became interested in the impaired risk business about 30 years ago. Before that, only a few companies specialized in marketing to those with challenging medical impairments and doing the necessary underwriting.

These few companies were viewed as the last resort for impaired risk cases. Both motivated buyers and diligent life insurance agents were glad they existed. They did much to carry the torch for a new generation by creating a more open market with companies interested in providing services to clients, as well as a chance to earn profits.

Since most of the original companies were under-capitalized, they didn’t survive. However, their objectives caught the eye of larger companies with greater resources and marketplace experience.

Concurrently, advances in medical technology, communications, computerization, actuarial science and underwriting gave carriers the ability to tackle the more challenging cases. They had the in-depth knowledge and understanding of metrics related to this expanded approach of basic underwriting.

Then in the 1970s, life companies began moving away from the “captive agency” model, which gave rise to the formation of brokerage general agencies. Looking for services to attract “independent agents,” a number of these new agency entities found that impaired risk met a growing need. Because of this interest and their efforts to broaden the understanding of impaired risk underwriting, the market grew.

The Growth of Impaired Risk
As the evolution of impaired risk continued, more underwriting departments and company executives became intrigued. Thus began a tremendous surge in pricing, product development and managing marketing opportunities.

This ever-increasing market for impaired risk underwriting and products created a need for continued refinement, innovation and study. Today, increased competition and profit potential require the latest in resources from a number of disciplines.

Reinsurance. With national and international reinsurance companies thriving, life companies are able to make larger and more aggressive underwriting offers, particularly as they learn more about the nuances of impaired risk underwriting.

While many of the largest domestic life carriers develop their own underwriting manuals, they still align themselves with one or more reinsurers when underwriting risks. Critical to this success is a working relationship between reinsurance companies and primary insurers.
The Growing Role of Impaired Risk Underwriting

by Allan D. Gersten, CLU, CFP®, ChFC

Advances in Medicine. Dramatic increases in life expectancy due to modern medicine is unprecedented. In addition, continuous improvement in health (and ultimately improved mortality) has not only brought premiums down but has also resulted in profits that make it possible to underwrite risks that were considered inconceivable in the past.

Not too long ago, controlled blood pressure was underwritten with a 50 percent extra mortality. Today, many of the largest companies offer a preferred best risk rate for the same scenario. New studies, additional research and medical improvements have affected how companies view many so-called “impairments.”

The Aging Population. A large and growing senior population has prompted life carriers to find ways to offer more coverage at lower costs so clients can purchase their retirement, business and estate planning services even though they are in less than preferred underwriting categories. In negotiating underwriting for seniors, companies face new concerns such as cognitive factors, appropriate testing, and decision-making on ways to view and use new medical testing.

Genetic Testing. Knowledge advances through gene testing are having a growing impact for applicants with medical issues and those who are not displaying any symptoms. This is a very complex area fraught with both moral and ethical concerns for companies and clients alike.

It’s an area that will continue to develop and become more of a factor in underwriting. Looking at gene testing objectively, there are more positive than negative aspects for consumers and life companies.

Habits That Affect Overall Health and Well-Being. These have long been an important component in the overall life insurance underwriting analysis. Now there is an enhanced methodology for discovery and analysis that aids life companies to make even more informed decisions, enabling them to offer coverage when they would have not done so previously.

Computerization, Data Analysis and Compilation. Mortality statistics from companies and research organizations, along with other techniques such as predictive analytics, are being utilized by life companies in evaluating mortality associated with a multitude of risks—this will not only continue but also become more accurate.

Actuarial and Underwriting Enhancements. The impaired risk underwriting marketplace is increasingly competitive and the playing field leveling. With greater access to comprehensive research and the tools needed for pricing, companies have figured out their own paradigm for a successful operation. Some with specialized niche underwriting make significant offers for cases that others shun. While others provide credits, table shaving or “price” for impairments in a way to garner a market and compete successfully.

Communication. Marketing and underwriting symposiums and forums for sharing ideas have gained new significance. The internet and other electronic communications have fostered an environment in which company executives and underwriters can compare the latest information, strategies and research quickly. All this translates into companies having a more clear understanding of the expectations for success when marketing new products.
Impaired Risk Underwriting Today
The marketplace continues to address the need of products for consumers with impairments, and carriers are addressing that need by making available a full range of term and permanent life policies.

Companies use a number of techniques for fully underwritten term and permanent plans, including credits, table shaving, niche underwriting, ratings and flat extra premiums. Many have loading built into their standard or preferred premiums. While these are not the lowest prices available, they are competitive and accessible for many moderately impaired clients.

Increasingly, carriers are focusing on simplified underwriting. Many have built in table reductions priced in their standard offer or a wider range of health status for acceptable clients. They are also using current technology to assist with classifying, in an effort to accept risks in a wider underwriting class, including simplified issue, direct submission, non-medical and guaranteed issue plans.

The Nature and Importance of Impaired Risk Underwriting
With impaired risk cases estimated to be 20 to 35 percent of the market, it is impossible to ignore the solutions that now exist to address virtually every part of the impaired risk underwriting market. Due to the depth and breadth of the market, companies are becoming increasingly strategic in carving out marketing and underwriting niches that can be profitable and complement their other products and positioning.

The life insurance industry has designed impaired risk products and processes that are tuned in to economic and financial needs. For instance, high-net-worth clients need insurance companies with specially designed products that mesh with substandard pricing and support quality responses when working with even the most challenging impaired cases.

The middle and lower-end markets also have access to these carriers. Simplified issue plans allow for various impairments to exist in a manageable range, streamlining the negotiation and medical evaluation process. Some of the largest companies are even finding ways to cater to the middle market without involving field agents with simplified processes and underwriting by using technological advancements and data analysis.

The Road Ahead for Impaired Risk Underwriting
Although impaired risk underwriting has come a long way in a short time, there is still much to be accomplished in an expanding life insurance marketplace that has a need for specialized underwriting. Everyone involved has a role to play:

- Carriers and underwriters must be committed to keeping up with technological changes in a timely way. To fall behind is to fail.

- Agents and brokers can benefit from more and improved training to better understand impairments. Their confidence, interest and ability to serve this market require significant skill and knowledge.

- Consumers are an integral part of the impaired risk equation. For maximum benefits, they need education and quality solutions for their medical issues that informed agents and brokers can deliver in assisting them to meet their financial responsibilities with appropriately priced life insurance policies.
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- Specialists can play a key role, too. With the growth and sophistication of brokerage general agencies, knowledge of impairments, how to underwrite them and where to go for coverage has broadened over the past few decades. These agencies are often staffed with former home office underwriters who possess enormous knowledge and experience that is further enhanced by a field underwriting perspective.

Clearly, impaired risk underwriting has progressed from an often marginalized, last resort function to a critical, mainstream role in helping to provide enormous value to those in need of life insurance protection and coverage.

In the years ahead, it’s only reasonable to suggest that impaired risk underwriting will become increasingly important for carriers, agents and—most of all—consumers.

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