



## Chapter 9 – Underwriting

**Underwriting** – another term for risk selection

**Insurable Interest** –

- applicant must prove a financial loss should insured die
- must be present at inception/application
- prevents wagering
- husbands, wives, children, grandparents, business relationships have insurable interest; not cousins

**Third Party Applicant** – Applicant & Insured are two different people

**The Application** – three parts

1. General – name, DOB, address, tobacco use, foreign travel, aviation activity,
2. Medical – health questions; exam/no exam (non-medical)
3. Agent's report – agent's personal observations
4. Making sure that the application is completed is the agent's responsibility.
5. Attending Physician Statement (APS) – company uses this to get more info on current or past medical conditions

**Representations** – All statements are representations

- Statements made in the application
- "Substantially true" to the best of your knowledge/belief

**Warrantees**

- Statements made in the application, which becomes part of the contract
- "Literally true" or guaranteed to be true
- If untrue, even in error, that's good enough reason to deny the claim and void the policy

**Medical Information Bureau**

- Hundreds of member insurance companies
- Non-profit
- Designed to keep premiums lower by preventing fraud
- Only code numbers are shared/ underwriting decisions are not shared
- Applicants must be notified in writing
- Applicants must allow, in writing
- Applicants have the right know the information contained

### Special Questionnaires

- Aviation – how many hours of flight time, kind of aircraft, private, commercial; Not the F.A.A.!!!
- Scuba

### Inspection reports

- usually only obtained for large amounts of insurance
- obtained from national investigative agencies
- provides a picture of the applicant's general character and reputation, mode of living, finances, etc.

### Credit reports –

- to ensure the applicant can afford the premium
- could show sign of a moral hazard

### Fair Credit Reporting Act of 1970

- Protects the rights of consumers
- Federal law
- For credit reports or any outside investigation reports
- Applicant must be notified within three days of the report, the purpose & scope
- Must be provided with all names of people being contacted
- If rejected by the company, the company must provide the **name and address** of the reporting agency used
- Applicant has the right to dispute

### HIPAA Disclosures

- Requirements with respect to disclosure concerning health/medical information
- Medical information to remain confidential
- If the company shares the information, the applicant must be given notice of company's practices pertaining to confidentiality
- Applicant must be given the right to refuse the dissemination of the information

### Classification of Applicants

- Preferred
- Standard
- Substandard – rated; charged more

### Underwriting Procedures

- Agent is the field underwriter
- Unfair trade practice – false advertising
- Buyers Guide - generic; must be given before the premium
- Policy Summary – specific; in-depth; identifies the agent, company, riders, premiums, dividends, cost indexes, etc.
- Completion of Application –
  - agent's responsibility;

- statements are representations; substantially true; to the best of one's knowledge
- Warranties are literally true; guaranteed to be true; when statements in the application become part of the contract they become warranties

### Signatures

- Minimum age – 15
- Required of applicant (policyowner), insured, agent; if a business will be the policyowner, then an officer of business other than the insured signs
- Disclosure statement (if required) signed
- Form authorizing investigation, medical release, doctor release, if needed
- Name of agent, agent's I.D. number, and company name on app.

### Changes

- application is part of the policy/contract
- mistakes may be changed by agent but witnessed & initialed by insured;
- if information is omitted or incorrect, the company may rescind or cancel the policy within the contestable period

### Premiums & Receipts

- Usually given at time of application
- If no premium/no receipt, no coverage

#### Conditional Receipts

- Covers insured conditionally as of that time/ or at the time of the exam, if one is needed
- The condition is: will/would the company have issued the policy as applied for
- If rated, no coverage until the extra premium is paid
- \$100,000 limit may be imposed

#### Binding Receipts

- Coverage is guaranteed until the company accepts, rejects, or counter offers
- Reserved for company's most experience producers
- Coverage begins at time of application or at the time of the exam (same as conditional receipt)
- Will pay before exam if death is an accident and within 30 days of receipt (only time there is coverage before the exam)
- Good for 60 days
- Can be no fraud

### Policy Effective Date

- Effective date will be at the time of application and premium
- At the discretion of the company if application was submitted with no premium

When is the effective date?	When is the coverage date?
<ul style="list-style-type: none"> <li>▪ For the company – tells the anniversary date, which is when annual premiums are due, dividends are paid, and interest hits the cash value</li> <li>▪ Date of premium – if PREMIUM WITH APPLICATION</li> <li>▪ Date policy is issued – if APPLICATION ONLY</li> </ul>	<ul style="list-style-type: none"> <li>▪ For the customer (claim is covered)</li> <li>▪ Date of the premium (receipt)</li> </ul>

**Backdating**

- To “save age”
- Effective date can made earlier (max six months)
- Policy owner must pay for those earlier months premiums

**Preliminary Term or Interim Term (temporary)**

- 1 – 11 months
- Designed for those who want immediate protection but want to delay the purchase of a whole life (maybe they can’t afford the premium for W.L.)

**Policy Issue & Delivery**

- Constructive Delivery
- Accomplished when company intentionally relinquishes control over the policy; ex. Mailing the policy to the agent for the unconditional delivery to the policyowner.

**Delivering the policy**

If you see the applicant’s health has deteriorated:

- Premium **was** paid at time of application = Deliver the policy
- Premium **not** paid at time of application= Void the policy and take a new application

**Statement of the Insured’s Good Health**

- Obtained at policy delivery when premium did not accompany the application