



Understanding Underwriting

By Larry Summers

Life insurance companies are in the highly competitive business of selling life insurance to the public. Before you purchase coverage, however, you must qualify by meeting the specific requirement of the insurance company. The purchase of life insurance is unlike any other consumer purchase. If you have the money or good credit you can walk into a store and walk out with a Sony flat screen television.

Life insurance does not work that way! You must qualify for coverage by taking a medical exam and after your medical and financial background is reviewed you will receive an offer from the insurance company. This process generally takes between 4-8 weeks. The underwriting process helps determine what rate the insurance company will charge you based on your individual risk.

Auto insurance help illustrated the concept. Good drivers pay less than do poor drivers. Also younger drivers have more accidents than older drivers so they pay more. The amount of premium is based on the amount of perceived risk.

Life insurance is very similar. A smoker will pay much higher rates than a non-smoker.

When you apply for life insurance, the company will examine a number of factors in determining your rate:

Your current health and physical condition

Your medical history

Your vocation (a race car driver poses a higher risk than a bank teller)

Personal habits, smoking, drug user or history of alcohol abuse, driving record.

Your age

The health history of your father&mother

How the information is processed

Once the information is received by the insurance company all personal and financial information is held in strict confidence. A specially trained underwriter will review and evaluate these factors and develop a risk profile for the applicant. The final rate reflects to the life expectancy of the applicant and possible reductions due to medical issues. These rates are not set arbitrarily although they can seem to be at times.

Risk Classifications

Preferred Plus: Only 5-10% of population receives this rate class. Those who do have excellent health and family history

Preferred: IF you are in generally good health with no negative family history and no extreme hobbies, sky diving, pilots.

Standard: If you are considered an average or typical risk.

Rated: If you have high blood pressure, heart problems, a high BMI index you will be rated.

Declined: If you are rated as uninsurable you could be denied coverage all together. There are policies where no medical information is required and companies like E Insure Mart can help people who might be rated this way. Remember the rating class can and does change if you stop smoking lose weight and improve you general heath. They are not cast in stone.