INSURANCE EXAM · IC-22

IC-22 Life Assurance Underwriting

Revision book

15	2	147
chapters	master tables	numbered sections

FREE SAMPLE: Chapter 1 of 15

CHAPTER 1

Life Underwriting: Principles and Concepts (Part 1)

1.1	Concept and steps	1.2	Factors (step 2)
1.3	Further evidence (step 3)	1.4	Mortality and morbidity
1.5	Classes of risk	1.6	Measure and decide
1.7	High-risk decisions	1.8	Standard and sub-standard
1.9	Outcomes for sub-standard risk	1.10	Diminishing lien
1.11	Specific exclusions	1.12	Postpone and decline

MUST KNOW

1. Underwriting = select, classify, evaluate, measure, rate the risk.
2. **5 steps:** assumptions, factors, further evidence, classify, measure and set terms.
3. **Premium assumptions:** age, gender, plan and term, sum assured, medical or non-medical.
4. Mortality rate = deaths per 1,000 per year. Morbidity rate = how often illness appears.
5. **4 classes:** standard, sub-standard, decline, postpone.
6. **High-risk decisions:** loading, postpone (**6 months** to **2 years**), exclusion, decline.
7. **Sub-standard types:** increasing, decreasing, constant.
8. **Diminishing lien:** **25%** for **5 years** pays 75, 80, 85, 90, **95%**; full from year 6.
9. Not separating standard from sub-standard = adverse selection.

1.1 Concept and steps

- **Underwriting:** select, classify, evaluate, measure, rate; then accept or not.
- Risk = chance of adverse result leading to a claim (death, sickness, disability).
- Step 1 assumptions for premium rates; 2 factors and first assessment; 3 further evidence; 4 evaluate and classify; 5 measure and set terms.
- **Premium assumptions:** age, gender, plan and term, sum assured, medical or non-medical.

1.2 Factors (step 2)

Factor	Items
Health	Medical history; present condition and treatment; mental status; family history (diabetes, BP, longevity)
Lifestyle	Drinking; smoking; tobacco (gutkha, snuff, pan-masala); hobbies (scuba diving, bungee jumping)
Occupation	Physical hazard (heights, jet pilot); health hazard (chemicals, mining)
Financial	Income and expenses; net worth; existing and simultaneous cover; industry outlook; social media; credit reports
Residence and travel	Risk of home place and of place travelled to

- **Debt and expenses above income:** reject or cut cover; over-insurance = moral hazard.
- Travel to poor-medical, unrest, crime or disease places: high risk; reject or modify.

1.3 Further evidence (step 3)

- **Only when papers are incomplete:** it delays and costs.

Case	Evidence
History of hospitalisation	Hospital discharge summary
High BP in proposal	Hypertension questionnaire + MER
Abnormal ECG	TMT or 2D echo
Adverse history in MER, not in proposal	Reports and questionnaires
Weak financials	More income proof; moral hazard report

1.4 Mortality and morbidity

- Mortality rate = deaths in a group in a year; per 1,000 per year; kept in mortality tables.
- Mortality table = life table = actuarial table; chance of dying before next birthday, by age, gender, occupation.
- **Mortality factors:** occupation, financial status, lifestyle and habits, alcohol and tobacco history.
- Morbidity rate = frequency of disease in a group (age, gender, occupation); used in health and long-term care products.
- **Morbidity risk high:** drop the critical illness or health rider; base cover with or without loading.

> **TRAP**
> Mortality = death. Morbidity = illness.

1.5 Classes of risk

Class	Meaning
Standard	Same as table risk; normal premium, no extra cost
Sub-standard	Higher risk (medical, occupational, avocational); extra premium; EMR (percentage loading, flat extra)
Declined	Near-certain claim (malignant tumour); no insurable interest; moral hazard
Postponed	Uncertain now (recent major surgery, cancer operated); review after months

- **Sources:** proposal form; agent's confidential report; medical reports; P&L, balance sheet, ITR, Form 16, credit agency data; supplementary questionnaires.

1.6 Measure and decide

- **Predictive mortality rated:** low, high, substantially high; compared with the mortality table.

Decision	When
Accept at standard	Mortality close to table
Special terms	Higher than table: loading or exclusion
Postpone	Substantially high now but likely to fall
Decline	Substantially high and static or rising

- Postponed case is re-underwritten; acceptance is never automatic.
- Premium joins the common pool; too low a premium = loss from under-estimated risk.
- Standard premium when mortality is near the table; extra premium for sub-standard.
- Decisions need reasons on the underwriting review sheet; practice consistent with company guidelines.
- Every life insurer must have a Board Approved Underwriting Policy (Insurance Products Regs **2024**; Master Circular on Life Insurance Products, **12 Jun 2024**): risk appetite, risks to underwrite, delegation, reporting to Board.
- **Low risk:** most accepted at standard rates.

1.7 High-risk decisions

- **Loading:** extra premium.
- **Postponement:** **6 months** to **2 years**, then assess afresh; win-win.
- **Exclusion:** no payment for death from the excluded cause; used more in health cover (TB example).
- **Health rules now:** pre-existing disease wait at most **36 months**; moratorium after **60 months** of continuous cover.
- **Decline:** no extra premium is enough; early claim foreseen.

1.8 Standard and sub-standard

> **TRAP**
> More sub-standard than standard lives insured = adverse selection.

- Terms must be fair to proposer, other policyholders and insurer.
- Most cases standard; few sub-standard; errors are costly.

Type	Meaning	Example
Increasing	Low now, high later	Obese person
Decreasing	High now, low later	Tuberculosis cured
Constant	Same throughout	Pilot, X-ray technician

- Most occupation and avocation risks are constant.
- **Pilot turns executive:** occupation extra premium removed. X-ray technician (15+ years) turns clerk: extra premium continues.

TRAP

"Falling extra risk" is not a term.

1.9 Outcomes for sub-standard risk

- **Decision rests on:** type of risk, purpose of cover, degree of severity.
- **Choices:** special terms, postpone, decline.

Extra premium	For
Level, age dependent at start, same for term	Increasing risk
Level, independent of age	Constant risk
Temporary, short fixed period	Decreasing risk

1.10 Diminishing lien

- Reduced basic sum assured paid if death in lien period; debt highest at start, falls yearly, cleared after the set period.
- **With-profits:** bonus paid in full. Accidental death: no lien, full sum assured.
- **Rarely used in India:** it defeats full cover in the early years. Any such term must fit the insurer's Board Approved Underwriting Policy.

FORMULA AND WORKED SUM

- **25% lien, 5 years:** year 1 75%, y2 80%, y3 85%, y4 90%, y5 95%; from year 6 100%.
- **Rs 10,00,000, death in year 4:** lien 25 - 3 x 5 = 10%; pay 90% = Rs 9,00,000.

1.11 Specific exclusions

- Fighter pilot air crash on duty excluded; fare-paying passenger paid in full.
- **Excluded cause:** claim denied to nominee; can cause legal disputes (e.g. policy assigned to mortgage loan).
- Mostly written as conditions on accidental death or critical illness benefit.
- **IRDAI filing format:** basic cover has no exclusion except suicide; other exclusions (occupation, travel) are separate policy terms.

1.12 Postpone and decline

- **Postpone:** cardiac surgery advised; neck lump under investigation; pregnant with two miscarriages (till delivery). Second medical screening before acceptance.
- **Decline:** no chance of improvement even if postponed; restricted-list country or city; extremely hazardous occupation; no insurable interest; moral hazard.
- Insurers have different thresholds; a high-appetite insurer may take a declined life with loading.

TRAP

Malignant tumour = decline. Recent operation or investigation = postpone.