

What is Fully-Underwritten Life Cover?

- **Welcome back to another episode of StreetWise Finance. Last week we discussed at length the difference between a semi-underwritten and fully-underwritten life insurance product, we discussed the underwriting process itself and how one would choose the best product to cover your family. Today is specifically about the fully-underwritten life products. What is this and how does this work?**

Let's break the concept of fully-underwritten life cover into two parts to make this a little easier to understand. Firstly, let's just talk about life insurance in general and then let's consider what the underwritten element means.

A life insurance policy is a contract between policyholder and a registered insurer, for which you will be required to pay monthly premiums to the insurer, and in exchange the insurer will pay the beneficiaries listed on the policy a benefit amount when a risk event occurs. A risk event could be death, disability or suffering from or diagnosed with a critical illness. This benefit amount is often in the form of a lump sum payout or can also be paid as a monthly income. In other words, a type of insurance that will payout a claim were you to pass away or no longer be able to work in order to provide for your family or yourself in such a situation.

The underwritten component then refers to a type of life insurance policy that is designed and costed to your exact needs and physical health. This is mostly done through a series of medical tests or health assessments.

- **Q: For anyone that may have missed last week's episode, perhaps just give us a quick summary of what underwriting is when we are talking life insurance.**

Underwriting is the process a life insurance company uses to determine how much risk it will be taking on by insuring you. Underwriting simply refers to a process of having certain medical tests done to assess your health. This may include blood tests, cholesterol tests, having your blood pressure taken, and having an ECG exam (cardiac/heart health examination). The process is normally done when taking up a fully-underwritten life cover, which covers disability-critical illness and death of the Life assured.

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This means you will likely need to answer questions on some of the following points during this process:

- Exactly what benefits you select: life, critical illness and/or disability cover.
- Whether your benefits for, for example, disability and severe illness are early pay outs of your life cover (accelerated pay outs)
- Age and gender
- Income, level of education and occupation
- Health and smoker status
- Sports and hobbies
- Your premiums will also be affected by things like the amount you insure yourself for, the sum assured, and the term of your cover.
- **Q: Okay, I have a question right from the start. We have been discussing life insurance thus far and you also mentioned disability and critical illness cover, where exactly does that fit in?**

Great question! That is a very common question. In fact, next week we will be discussing these two benefits in much greater depth.

So, how does life cover relate to critical illness and disability cover? Generally, only a fully-underwritten product would include life, disability, and critical illness cover. This means that even if you were no longer able to work (but not lose your life) as a result of an illness or disability, you would still be able to receive a pay out from a claim on this policy. You may also have the option to only take out a critical illness or disability cover and not have life cover on a fully-underwritten product.

In short, this means that a fully-underwritten insurance policy (with a life disability and critical illness cover) might be the most holistic measure you can put in place to ensure that if anything were to happen to you, your loved ones would be taken care of.

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- **Q: So, what kind of factors would an insurance company consider as part of the underwriting process?**

The underwriting process will generally include a number of medical tests and consider a range of factors part of your lifestyle.

There will be some difference depending on the insurer, but will likely be tests such as Blood tests (HIV/ Cholesterol) and standard fitness/ health checks. They may also take into consideration your family medical history, and any habits you may have related to smoking, drinking or any adventurous sports you have and might participate in (e.g bungy jumping, sky diving. Etc). The type of occupation you are in also plays a role in the fully-underwritten cover process.

- **Q: Honestly, this process seems like it can be lengthy and tricky. Why would you then choose a fully-underwritten product?**

One of the key benefits a fully-underwritten life policy would provide is that it is customized to your specific needs and your health. This means that the cost of your monthly premium would be unique to you and your health conditions. This means you are likely to get a better premium for the same amount of cover on a non or partially underwritten product.

Secondly, if you have any pre-existing conditions, a fully-underwritten product may be the only way you could get cover on these conditions, where these could be excluded from partially underwritten products.

Semi-underwritten policies are normally sold without a disability or critical illness cover, meaning in the incident of you passing away would you be eligible to claim and receive a payout. Whereas with a fully-underwritten product, you would be able to receive life cover as well as illness and disability cover, so even if you were not to pass away but no longer be able to work and support your loved ones, you would be eligible for a claim.

- **Q: How do you know what the right amount of cover would be?**
- This depends on the cover you choose according to your requirements, and considerations like what premiums you could afford and the size of payout your family would require were you no longer able to support them. Generally, some cover levels are around R1-3 million while others can reach up to R10 million also depending on the insurer you choose.

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- **Q: I have heard that some people apply for life insurance and then do not get cover because of a health condition. Is that true? And if it is, why should I be honest about my health with an insurer?**

It is generally accepted that the person applying for insurance knows more about the risk to be insured than the insurer. For this reason, the Long-term Insurance Act compels applicants to honestly disclose all information likely to influence the judgment of the insurer when determining appropriate policy terms and premiums. Information generally regarded as material includes your medical history, state of health, family history and lifestyle. Having all the facts at their disposal enables the life insurer's underwriters to determine the exact risk you pose to the insurer.

A life insurer is therefore within its rights to not pay out a claim and declare your policy void, should it come to light that you were dishonest or that you failed to disclose important details when you took out your policy. If you are in doubt about whether information is important or not, rather disclose it and let the underwriters decide whether it is material.

For example, let's imagine a medical condition was picked up during the health assessments as part of the underwriting process. If your medical condition or lifestyle choices are considered a material risk, the life insurer may offer the cover on different terms such as a higher premium or exclusions on disability cover or severe illness benefits. In a small percentage of cases, the applications are declined. While it may therefore seem tempting to keep quiet about ailments or pending medical investigations, should you claim for a condition that was subsequently diagnosed as a result of the investigations, the claim might be declined.

Rather be honest and if your cover is declined, then you and your loved ones can at least plan ahead for the financial impact should something happen, or you can take out cover for accidental death only.

- **Q: If you take out a fully-underwritten product like this, then what? Or for those listeners today that may already have a life cover like this, what do they need to keep in mind?**

Good question! For me, what would be important to realise is that ensuring our loved ones are taken care of if we are no longer around or able to provide for them is not a once off decision. Having something like a fully-underwritten product which is really designed and created as a bespoke solution to our individual needs and that of our family is something for life. So, once you have bought this type of cover or if you already have this, here are two things to keep in mind:

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1. The first thing to keep in mind is that your needs and that of your family may change over time and you may need to re-evaluate your type of cover (meaning adding a life, disability or critical illness cover to your current policy). Whenever there is a large life event, marriage, divorce, birth of a child, loss of another loved one, there may be changes to your policy to consider.
 2. Who can claim and who are my nominated beneficiaries? It is very important to keep your nominated beneficiaries up to date as these are ultimately the loved ones that would receive the value of the life cover were we to pass away. This will likely be the Life insured (You) in the case of disability or critical illness, or spouse and/ or nominees (children, siblings) in the case of death. Secondly, it is important to ensure that all your listed beneficiaries are aware of your policy and have all the details and documents they would require were they to pass away.
- **Q: A question that I am sure many of our listeners will have around our discussion today, is whether we can really trust something like a fully-underwritten life insurance policy to provide for our families were we to pass away? Would you be able to share anything on this?**

Although terms and conditions on life insurance policies (like exclusions) may seem complicated, that should not put you off getting the cover and peace of mind that your family would be taken care of were you to pass away. The reality is that the overwhelming majority of life insurance claim in South Africa get paid out. If we look at some numbers from a great local financial literacy resource website called smartaboutmoney.co.za, we can see this:

- **32 072:** the number of claims against fully underwritten policies in 2019
- **219:** the number of these claims not paid
- **44: of the 219** were not paid because of the suicide exclusion
- **16: of the 219** claims were not paid because of other exclusions in the contract
- **43: of the 219** were not paid because they were fraudulent
- **116: of the 219** were not paid because of material non-disclosure
- *Source: The Association for Savings and Investments South Africa's 2020 annual death claim benefit statistics for fully underwritten individual life policies. (Taken from smartaboutmoney.co.za).*

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