Hollard. STREETWISE FINANCE
Basic financial literacy programme.

What is Semi-Underwritten Life Cover?

- **Q: Last week we spoke about life cover in general, how this can assist our families, and what we might need to consider when deciding how much cover we may need. Last week we briefly touched on different types of life insurance products, called semi-underwritten and fully-underwritten life insurance. Perhaps we can start today's discussion with exactly what these are?**

Underwriting is the process a life insurance company uses to determine how much risk it will 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). This means that a fully-underwritten life policy will likely have numerous of these types of questions and require detailed questions about your health and history, whereas a semi-underwritten policy would only require some of these.

Your policy is probably fully underwritten if you are required to answer lengthy questionnaires about your health and lifestyle and to go for medical assessments and blood tests. If you only have to answer a few basic questions, your policy has limited underwriting

- **Q: With all these options in underwriting, how would one choose which option would be best for me and my family?**

1. A policy with limited underwriting may require answers to a few questions about your age and health, but few or no medical tests. The underwriter or insurer then has to decide on the risk of offering you cover without an accurate assessment of the risks which could result in you paying more for your cover. If you are in good health and younger, an underwritten policy will generally be cheaper than one that is not underwritten. This is because when a life insurer has established through tests and questions that you are in good health, it will be prepared to offer you a cheaper premium. But remember there are many factors that influence the cost of cover.
2. Another consideration is that as a result of these medical tests and underwriting process, it can take up to a few weeks to have a full-underwritten life policy active. A policy with more limited underwriting can be much simpler and faster to take out.

3. A third consideration will be if you have any specific health conditions that have already been diagnosed. Policies with limited underwriting often have a general exclusion from cover for any conditions you had when you took out the policy and may also have waiting periods before cover for deaths from natural causes are covered. In other words, based on the outcome of the underwriting process, a life insurer will decide whether to accept or decline your application for cover, and under what conditions. The conditions are set out in the terms of your policy and include your premiums and any exclusions from cover. Underwriting identifies those who have a higher chance of claiming, so that they can be charged more than low- or average-risk policyholders. They will pay what is referred to as a premium loading. This often means that for individuals that have already diagnosed health conditions and may not be eligible for partially underwritten policies, fully underwritten policies may be the most acceptable option in ensuring that family members are still taken care of were you to pass away or no longer provide for them.

4. A final consideration to keep in mind when deciding between fully and semi-underwritten policies would be the type of cover you would require. 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 pay out. Whereas with a fully-underwritten product, you would be able 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: You mentioned that fully-underwritten policies can have more affordable monthly premiums for the same cover level when compared to fully-underwritten policies. Is this really the case? And how is that so?**

Life insurers pool the risk of you lodging a claim against your policy with that of all the other policyholders with the same policy. Premiums are collected from all policyholders based on the cost of paying out claims to those who do claim. But some policyholders are higher risk than others and identifying the higher risk ones through underwriting allows insurers to charge those who are a higher risk more and the rest of the group less. Whereas in a semi-underwritten products because this identification of higher and lower risk policyholders does not take place, insurers need to apply an average cost in premiums in order to offset this.

- **Q: In last week's episode we spoke about life insurance in general and the need it fulfils, and now with this split between semi-and fully underwritten life insurance products, a question that comes to mind is whether I should only be buying one policy with one insurer? Or if I should consider getting a few different policies with different insurers?**

The short answer is yes, you are allowed to take out multiple life insurance policies with different insurers in South Africa. The question then becomes whether you should be doing this and whether there is any benefit in doing so?

There are many reasons why people choose to take out multiples policies, including to ensure that they have ample financial security. However, it is also crucial to know what you are getting yourself into before doing this.

1. **Taking out multiple policies can stretch your budget.** Multiple policies means you will be paying multiple monthly premiums, and each of these may have annual increases.
2. **Policy management:** More policies means more administration and contact with your different insurers, more policies means this could also become more complex as different insurers may have different requirements.
3. **Informing a trusted family member:** Unclaimed benefits is a considerable concern in South Africa. There are many life insurance policies which go unclaimed because family members were not aware of these policies. Have multiple policies means your family will need to be prepared to claim from multiple insurers after your death.

Instead of increasing your total life insurance value or sum assured value by adding multiple policies to your portfolio, you can always consider increasing the cover on your current product or switching the type of product you have. We will be discussing funeral insurance in a later episode, but funeral cover is generally a much lower cover value than a semi-or underwritten policy. You can contact your insurer to better understand what options they would have available if you wanted to increase your life insurance amount.

- **Q: You mentioned that semi-underwritten policies may exclude already diagnosed health conditions as pre-existing conditions. What happens if I were to apply for a semi-underwritten product but do not disclose a health condition I may have?**

You will be asked if you have any pre-existing conditions and it doesn't pay not to disclose these because if you claim, the life insurer will check on your medical history and may reject a claim arising from a condition you had, but did not disclose, when you took out the policy. The Ombudsman for Long-Term Insurance says among the complaints to its office, pre-existing exclusion clauses are the most common reason for denying claims.

It is always best to be honest and transparent with your life insurer and disclose any conditions or changes in your health over time. A fully-underwritten product is likely to mean that you will have a relationship with that insurer for the rest of your life so make sure you treat them like part of the family.

The ombudsman says life insurers often mistakenly place the burden of producing medical evidence about your medical history on your family member who is claiming on the policy. However, the ombudsman says, if an insurer wishes to rely on the pre-existing exclusion clause, the onus is on it to prove the existence of a medical condition that existed prior to inception of the policy. It is only if the information the insurer seeks is something only the claimant knows about that the claimant has to produce the information or evidence. Even then the onus of proof remains on the insurer.

The ombudsman has also ruled in complaints that the insurer must prove that the condition led to the insured person's death. So if you family member with a history of high blood pressure dies of a heart attack and the insurer refuses to pay because it says the pre-existing condition caused the heart attack, it must obtain medical evidence to prove the connection between the condition and the heart attack.