



Underwriting Guide

This guide is to unlock the complexity of underwriting. It helps to clearly explain how some of our core underwriting areas work, offering an overview of the key processes.

JOHN DOWNES

Director of Underwriting and Claims

Contents.

1. What is underwriting?	4
2. The application process.	4
3. Underwriting information.	4
4. Tele-underwriting.	5
5. Duty of disclosure.	5
6. Underwriting outcomes.	6
7. Non-medical limits (NMLS).	6
8. Income protection cover (IPC).	7
9. Financial underwriting.	9
10. Post Issue Audit Underwriting	11

1. What is underwriting?

Underwriting is the process whereby applicants are classified according to their degrees of insurability so that the appropriate premium may be charged and the correct terms offered. Underwriting takes place in all forms of insurance, for example marine, motor and household, and the principle is always the same.

Underwriting risk factors include:

- Health
- Family history Body Mass Index (BMI)
- Lifestyle (ie. smoking, drinking)
- Occupation
- Hobbies
- Residency and travel

2. The application process

The application process involves answering a set of questions that are designed to capture the information we need to build a clearer picture of the life to be insured and the risk factors which may increase the likelihood of them claiming.

These questions can be captured straight on to our online application or on a paper application (and captured online at a later stage).

Once the case has been captured online and submitted all the information will be fed through our online underwriting rules engine (URE).

At this point one of the following decisions will be made:

- Case accepted at standard terms
- Case accepted with a loading or exclusions
- Medical/financial requirements requested
- Case referred to an underwriter

3. Underwriting information

Underwriting information is obtained for two reasons – because of the level of cover applied for, or because of disclosures on the application form. Details of the automatic evidence required due to the level of cover being applied for, can be found in our non-medical limit section adviser.vitality.co.uk/life-insurance/underwriting/non-medical-limits/.

Wherever possible, where your client has disclosed information, we will make decisions based on the application form alone. Where further clarification is required we will obtain one or more of the following:

A General Practitioner Report (GPR)

This is a report that is completed by the applicant's GP which documents their medical history. A GPR is more likely to be requested for older lives, where there are multiple medical problems, or where additional information is required which the client is unlikely to know. It will also be requested for larger sums assured.

Although we have a process in place which enables us to have the GPRs returned as soon as possible, the process can sometimes be time consuming. In view of this we will always try to request alternative evidence in the first instance.

Other than your client having to sign an access to medical report form (AMRA form) this will have no impact on the client's time as there is no physical exam involved. You will have the option to complete the AMRA form as part of the online application. By completing the form online this speeds up the process of requesting GP reports.

Targeted GPR (TGPR)

This is a short medical report completed by the applicants GP. Unlike the GPR, the TGPR provides detailed information pertaining to a specific condition, for example diabetes or cancer, and not the applicant's full medical history.

Once again, this will have no impact on the client's time.

Nurse screening or medical examination by a doctor

This is where the client undergoes a medical exam by a nurse or a doctor which provides us with details of their current health. Most medicals are carried out by nurses however for larger sums assured a doctors screening will be requested.

Wherever possible the nurse screenings will be carried out by one of VitalityLife's own nurses.

In the event of a VitalityLife nurse not being available the function may be outsourced to a third party provider.

Appointments can be carried out at the clients home or place of work.

4. Tele-underwriting

Little T underwriting

In the event of us requiring more information pertaining to a disclosure made on the application, we will arrange for a nurse to call the client to ask more questions about the medical condition. This helps speed up the application process and can sometimes avoid the need for a GPR.

Big T underwriting

Big T underwriting is where the process of completing the application form is outsourced to a VitalityLife nurse.

Blood tests

In many instances we will only require a finger prick test to obtain fasting glucose and cholesterol levels. This provides an instant result and is far more customer friendly than venous testing. Venous testing will be required where a finger prick test is not appropriate.

Other medical tests

These include a cotinine test (a test to confirm a client's smoker status), an HIV test, and exercise ECGs. Note for customers under the age of 50 we can often carry out a blood test (NT-proBNP) instead of an exercise ECG.

Financial questionnaire

When the levels of cover are high, details of the client's financial situation may be requested in order to gauge whether the levels of cover applied for are justified. They may be required for both personal cover and business protection cover. The financial questionnaire is available on-line during the application process.

5. Duty of disclosure

We rely on the client giving full, accurate and honest disclosure of relevant facts on the application form. You should ensure that your client understands that withholding information, or even just forgetting something, could lead to a situation where a claim will be refused.

The duty of disclosure continues until a final underwriting decision has been made.

This principle is known as the ongoing duty of disclosure and means that between the time of the application being submitted and a final underwriting decision being made, we have to be notified of any changes in the clients circumstances. This could include changes to health, occupation or hazardous pursuits.

Any information provided may, or may not have an impact on the final decision.

6. Underwriting outcomes

Once the underwriters have all the information they need, one of the following decisions will be made:

- **Accepted at standard terms**

There is no change to the original terms quoted.

- **Accepted with a loading/rating**

The premium has increased due to an added risk (see below for more information).

- **Accepted with an exclusion**

A medical condition or hobby/pursuit has been excluded from one of the benefits (see below for more information).

- **Accepted with a loading and an exclusion**

The premium has increased due to an added risk and an exclusion has also been applied.

- **Postponed/deferred**

Terms cannot be offered at this stage, however could be considered at a later stage. This could be due to pending medical investigations where a final diagnosis has not been established or in the instance of a recently diagnosed medical condition.

- **Unable to offer cover**

Terms cannot be offered.

The adviser and client will be advised of the decision in the acceptance letter.

Loadings/ratings

The majority of loadings/ratings are in the form of a percentage extra mortality (EM), and are a multiple of the basic premium. A rating of +55% EM will therefore be an additional 55% of the basic premium. Extra mortality on life cover is charged from +27.5% to +200%. Above this amount the risk is considered too speculative and will be declined. The maximum loading applied to SIC and IPC policies is + 150%. EM loadings are not appropriate for certain risks which are not age related, the most common being for cancer or hobby/pursuits. For these risks a cash extra is charged, based on the sum assured. These can be permanent or temporary loadings, applied to the first few years of the policy.

Exclusions

For Income Protection Cover, Serious Illness Cover, Business Serious Illness Cover, Life with Serious Illness Cover and Life with Business Serious Illness Cover it may sometimes be more appropriate to apply an exclusion than a loading. If the client has a pre-existing condition for example, which has an unacceptably high chance of causing a claim we will exclude that condition. Exclusions are never applied on Life Cover.

A discount is offered if a full cancer exclusion is applied to Serious Illness Cover, Income Protection Cover, Life with Business Serious Illness Cover, Life with Serious Illness Cover and Business Serious Cover

7. Non-medical limits (nmls)

This is the amount of cover allowed before automatic evidence is requested due to your clients age and amount of cover being applied for. Full details are available on our

Adviser Website, adviser.vitality.co.uk/adviser.vitality.co.uk/media-online/advisers/literature/life/underwriting/medical-requirements-underwriting-table.pdf

8. Income protection cover (IPC)

This is an underwriting guide for VitalityLife's IPC product. Full technical product details are available within the Plan Provisions.

How IPC works

IPC pays a regular income if the insured becomes incapacitated and cannot work with a payout that gets bigger the more engaged the insured is with Vitality. Please see Plan Provisions for full details.

Underwriting

Due to the nature of this type of policy, the underwriting process may be a little more comprehensive. This is due to the different claims triggers associated with IPC and the fact that the underwriters are assessing the risk of incapacity instead of death. There are many conditions which have no risk impact on life insurance but can have a large risk impact on an IPC policy and this has to be taken into account by the underwriter.

It must be noted however that many cases are accepted immediately via our underwriting rules engine.

Unfortunately we are unable to offer IPC for customers employed on zero hours contracts.

IPC definitions

We will pay a claim if the life insured becomes ill, injured, or disabled, and the level of incapacity meets one of the following definitions:

- **Standard definition**

The inability to perform the material and substantial duties of your own occupation. These are the duties that are normally needed to do your own occupation and that cannot reasonably be omitted or modified by you or your employer.

- **Special definition**

For the first 12 months, we will pay the full monthly benefit if illness or injury makes you unable to perform the material and substantial duties of your own occupation. After 12 months, we will assess you again. If, at this point, you are unable to perform at least three of the activities of daily living without another person's help, we will continue to pay you the full monthly benefit. If you do not fail at least three activities of daily living, but are still unable to perform your own occupation, we will reduce the amount we pay you to 50% of the monthly benefit amount.

- **Activities of daily living**

We will assess incapacity according to a specific set of everyday physical activities which are designed to show how able someone is to look after themselves.

Occupation classes

Each occupation falls into a specific class. These range from 1 to 5, with class 1 being the most sedentary low risk type job and class 5 being a very heavy manual or risk intensive job, with a far greater associated risk of a claim. The premiums reflect these risks and will increase accordingly. For example a class 3 occupation will have a higher premium rate than a class 1 occupation.

The risk associated with certain occupations is not just the increased risk of accident but also the risk to general health that can be associated with some types of jobs, for example, stress is more prevalent in certain occupations than others.

It should be noted that mental health and musculo-skeletal conditions are the two biggest causes of IPC claims.

IPC will not be considered for any class 5 occupations as the risk is deemed too great. Similarly we will generally only consider class 4 occupations with a "special definition", due to the increased risk associated with that type of occupation.

Please refer to our Occupation Guide For Advisers for more information.

How we will assess a claim

A claim will be assessed according to the occupation being carried out immediately before the claim. If we would not normally use the standard definition of incapacity for that occupation, then we may use the special definition or activities of daily living definition to assess the claim.

What happens if the life insured changes occupations during the term of the policy?

The life insured does not have to let us know about changes to their occupation during the term of their policy. It's important to note however that the assessment of any claim will be made according to the claimant's occupation immediately prior to the claim.

If we are notified of a change in occupation during the term of the policy, we will make the necessary amendments. For assistance please contact Life Servicing Administration.

Deferred periods

The following deferment periods are available:

- 7 days (self-employed only)
- Four weeks
- Eight weeks
- Three months
- Six months
- Twelve months
- Twenty four months
- Sixty months

Multiple deferred periods

Either one or two deferred periods can be set up under the policy. If two deferred periods are selected, in the event of a claim, we will start paying part of the monthly benefit amount at the end of the first deferred period. We will start paying the full monthly benefit amount at the end of the second deferred period.

This is to enable the policy to align with the life insured's company sick pay benefit which will often offer full pay for a period of time, reducing to a percentage for a further period of time and eventually ceasing altogether. It also avoids potential over insurance.

Public sector workers

Public Sector employees can select to have a Public Sector Deferred Period for their IPC. See the Plan Provision for details of the Public Sector Deferred Period. Public Sector employees include teachers, NHS employees and council employees. See the Plan Provision for details of eligibility. A 12 month deferred period needs to be selected.

Earnings Guarantee

Earnings Guarantee is the lesser of £1,500 and the monthly benefit amount.

Increasing cover

Any increase in cover will be subject to underwriting unless a valid Guaranteed Insurability Option (GIO) is applicable.

Unemployed or career break when claiming

If the life insured has been unemployed or on a career break for longer than one month at the time of claim they will be assessed as a house person.

House person cover

We offer cover for house persons with a maximum benefit of £1,500 per month. In order for a claim to be paid, the claimant must be unable to perform three out of the six activities of daily living.

Maternity leave

If a policy is applied for during maternity leave terms will be considered based on the life insured's occupation and earnings prior to maternity leave.

Maximum monthly benefit amount

- 60% of the first £5,000 per month of pre-incapacity earnings, plus 50% of pre-incapacity earnings in excess of £5,000 per month.

Income used to calculate maximum pre-incapacity earnings If employed

Your average gross monthly earnings for PAYE purposes from your own occupation in the 12 months before the incapacity.

This includes:

- Salary before any tax or national insurance contributions have been taken off
- regular commission or bonus payments
- regular overtime payments
- P11D benefits in kind as long as these will be lost in the event of incapacity
- dividend income from this employment as long as it is paid directly to the life insured in lieu of salary, it ceases in the event of incapacity, is consistent with the salary and the company's trading position reasonably allows it to continue on an ongoing basis.

If self employed

Your average gross monthly taxable earnings from your business in the 12 months before the incapacity less any amounts allowable as expenses against income tax.

Income tax or national insurance contributions should not be taken off.

Do not include income from savings or income from rental of property or goods.

Ongoing income that WILL be deducted from maximum monthly benefit amount

The total gross monthly equivalent of any benefits that are due to the life insured under any other insurance against incapacity or illness. These will involve a regular payment to the life insured or to a financial institution on their behalf. This includes other income protection policies and mortgage payment protection policies.

60% of any salary, wages, income, fees, dividends or commission which continue to be received directly from employment or business.

Any early retirement pension received from any office, employment, trade, profession or vocation as a result of the incapacity. This will be net of any Income Tax or National Insurance contributions that apply.

The following forms of income will NOT be deducted from maximum monthly benefit amount

State benefits, non-employment related dividends, income from renting property or goods, and any waiver of premium benefits will not reduce your maximum monthly benefit amount.

What happens if you live abroad?

If the life insured lives or is travelling in the United Kingdom or permitted countries, we will pay the Income Protection benefits as normal. If the life insured lives or is travelling within non-permitted countries while we are paying benefits, we will limit the amount we pay to the equivalent of 183 days benefit in any 365 day period.

We will also limit the amount we pay to an overall maximum of 365 day benefit.

9. Financial underwriting

Financial underwriting is an extremely important aspect of the overall risk assessment process. The purpose of financial underwriting is to ensure the sum assured and total level of cover each client has is appropriate for them. Most importantly, it establishes that an insurable interest exists by identifying the reason for the cover. It also protects insurance companies against anti-selection or over-insurance. Financial underwriting will only be carried out when the sum assured exceeds certain limits.

The following section details the various reasons for cover and explains the underwriting considerations for each of them. Full details of our financial underwriting requirements can be found on our *Adviser Website*: <https://adviser.vitality.co.uk/adviser.vitality.co.uk/media-online/advisers/literature/life/underwriting/medical-requirements-underwriting-table.pdf>

Personal cover

Family protection

Family protection is based on a multiple of earned income:

Age	Life cover
17-29	35x income
30-39	30x income
40-49	25x income
50-59	20x income
60-71	15x income

Information includes:

Details of existing cover with VitalityLife

- Details of any other cover applied for at VitalityLife within the past 12 months (regardless of whether the policy was issued or not).
- Details of total amount of cover to be taken up, including any policies to be effected within the next 6 months.

It makes sense that a younger person will generally require more personal life insurance than that of an older person.

They may have a young family with a mortgage to cover, whereas someone older could have a grown-up family and little debt and therefore much less need for personal cover.

Personal loan protection

Loan protection is usually to cover the principle mortgage but also may be required for second mortgages if substantial (usually taken out for home improvements) and other personal loans.

The sum assured should be equal to the term and amount of the loan. If the loan is repayable on an interest only basis then level term assurance should be used, but if it is a capital and interest repayment basis the policy should be covered with decreasing term assurance. However, this need not be strictly applied depending on the client's existing personal cover.

If two people are jointly and severally liable for the loan, the cover should be written on a joint life basis. Again this need not be strictly applied depending on existing personal protection cover.

Information required:

- Cover in force for personal loans
- Concurrent applications for personal loans
- Income – if the mortgage is more than three times joint income, further enquiries need to be made
- Mortgage amount
- Term of loan and details of lender.

Inheritance tax cover

This is cover taken out to mitigate an inheritance tax liability. There is no inheritance tax payable between a married/civil partnered couple, and such policies are written on a joint life second death basis. Whole of Life plans are written either on a single life basis, or if joint life – payable on second death. The policy must be written in trust otherwise the proceeds of the policy will fall into the estate and increase the inheritance tax liability rather than mitigate it.

The inheritance tax is calculated as follows:

Assets (property, goods and chattels), less liabilities (loans and credit) = net estate

Less current inheritance tax threshold (£325,000, or £650,000 for the second partner) x 40% = current inheritance tax liability

Serious Illness Cover is irrelevant for inheritance tax since the liability arises only on death.

Information required:

- Existing and concurrent inheritance tax cover
- Assets
- Liabilities
- Net assets above the threshold.

Relevant Life Policies

The policy is designed to meet the requirements of s.393B (4)(b) of the Income Tax (Earnings and Pensions) Act 2003.

Small limited companies with only one or two directors are eligible for a Relevant Life Policy. The company should be named as the owner of the policy and it should be placed into a discretionary trust.

Relevant Life Policies are not suitable for sole traders or (equity) partners. However, if they employ staff, they can take out cover on their employees.

A limited company however small, has an 'employer' (the company) and 'employee' (the directors) relationship. In general, the benefit amount will be based on multiples of income, along with the basic salary we will take into account regular dividends, bonuses and benefits in kind. Please see the table below for the normal multiples of income that we would use.

Age	Life cover
17-29	35x income
30-39	30x income
40-49	25x income
50-59	20x income
60-71	15x income

Serious Illness Cover and Disability Cover for Business are not available for Relevant Life Policies.

Business cover

(I) Key person cover Key Person Cover is designed to protect the net, pre-tax profits of small and medium sized companies in the event of death or serious illness of one or more of their key employees.

Clearly if such a company lost their main source of profit it could have a devastating effect on the viability of the business going forward. Key individuals usually have specialist knowledge of the business and are instrumental in obtaining business contracts that bring a profit stream.

The company can take out Life Cover, Serious Illness Cover or Disability Cover for Business to mitigate against losses incurred.

This will either be to cover costs in replacing the key employee, to replace the profits to continue paying shareholders, or to cover business expenses until a replacement is found.

The following multiples are a general guide, however each case will be assessed on an individual basis and the final decision will be at the discretion of the underwriter.

Reason for cover	Multiple
To replace the key employee	up to 10x salary
To replace profits	5x net pre tax profits (averaged over the last three years)
To cover business expenses	2x gross profits (averaged over the last three years)

Only one calculation is used so you wouldn't need to do a calculation on replacement plus loss of profits. Where there is more than one key employee the profits are split between them according to contribution to the business. So, if there are two key employees equally responsible for the profits, you would calculate the sum assured on 5x net pre-tax profit and divide by two. A short-term plan is generally appropriate for this type of business cover.

A term of more than ten years may need further enquiries.

Information required:

- Existing and concurrent key employee cover
- Reason for the life assured being key
- Basis for calculation of the sum assured
- Trading figures (turnover, gross profit, net pre-tax profit). If the turnover is decreasing, or there is a gross or net loss then this needs to be explained in the notes
- Number of key people and details of applications on other key people
- Percentage of profit attributable to key employee(s).

(li) Business loan protection

Many small businesses rely upon lending from major institutions to allow ongoing trading and assistance with cashflow, purchasing of stock and general business expenses. Business loan protection is designed to cover outstanding business loans and other credit facilities but generally not overdrafts. The sum assured should be equal to the amount and term of the loan. For interest only loans level term assurance is used.

Information required:

- Details of any existing and concurrent business loan cover
- Details of any other employees that are being covered
- Reason for the loan, and details of the lender
- Trading figures
- Details of loan amount and term of loan.

(lii) Shareholder protection and partnership protection

If a shareholder dies or is seriously ill, shareholder protection and partnership cover pays a lump sum to the surviving shareholders so they can buy back shares and keep control of the business.

The benefit requested should equal the value of the shareholding. Certain factors are taken into account when valuing a business, however, a good estimation of valuing a business at a high level is 10x the average (three years) net pre-tax profits, plus net asset value (building, stock, equipment) less liabilities (loans/debts), plus goodwill. The sum assured is based on the percentage shareholding or share of the partnership. A 50% shareholder or partner would therefore be covered for 50% of the company value.

Information required:

- Details of any concurrent and existing share protection/partnership protection cover
- Details of any concurrent applications being applied for on other shareholders partners
- Valuation of the business and details of who has valued the business
- Percentage held by the individual
- Details of any option agreements that may have been drawn up

10. Post Issue Audit Underwriting

It is our policy to obtain a random sample of General Practitioners Reports (GPR's) shortly after the acceptance of insurance contracts to monitor the accuracy and completeness of the information given. This enables us to check whether clients have missed any relevant information on the application form, which may

affect a client's ability to claim. In the event that the medical report highlights a material fact that the client has knowingly failed to disclose, we reserve the right to reconsider the terms offered or cancel the contract. If this is the case we will contact both the client and adviser to confirm the new terms or cancellation of the contract.

Find out more.

**To find out more about underwriting please
speak to your Business Consultant or call
0800 012 1796.**

VitalityLife is a trading name of Vitality Corporate Services Limited. Registered number 05933141. Registered in England and Wales. Registered office at 3 More London Riverside, London, SE1 2AQ. Vitality Corporate Services Limited is authorised and regulated by the Financial Conduct Authority. Calls may be recorded/monitored to help improve customer service. Call charges may vary.

PRUPT11394_05/24_J7440