



FROM AN UNDERWRITER'S POINT OF VIEW

WHAT YOU SHOULD BE AWARE OF WHEN SELLING A DISABILITY INCOME POLICY

INTRODUCTION

The field underwriter's role in the selection process for both life and disability insurance is an important one. However, field selection is especially critical for the success of the disability insurance product line. The agent is in the best position to evaluate an applicant's stability, motivation and general character – all characteristics which have a more direct impact on disability claims experience than they do for life insurance.

As with life insurance, the basic factors entering into insurability for disability insurance are medical history, family history, residence, occupation, lifestyle, finances and physical condition. Information with respect to these factors is obtained from the application, attending physicians, independent investigations and other sources.

There are important differences between the underwriting of disability insurance and life insurance because of the different nature of the events insured against. A disability may be affected by many subjective considerations, as well as general economic conditions. Many medical conditions involve no additional risk to life but may well lead to prolonged or recurrent disabilities. The relation between occupation and premium category is much more direct. Because of the subjective elements, the economic circumstances of the insured, employment stability, personal character and habits take an added importance.

The following sections discuss a number of factors which influence the underwriting of a disability insurance application. These guidelines will be appropriate for the majority of cases; however, each application will be assessed based on all aspects of the case. The appropriate underwriting action will be determined at the discretion of the underwriter.

SPECIAL UNDERWRITING CONSIDERATIONS

Motivation

Motivation is an area in which dependence on field underwriting is likely the greatest. The motivation of an insured is not a tangible aspect which can be evaluated in a direct way, as is determining occupational classification. However, it is a characteristic which can strongly affect claims experience.

In general, motivation or the **“will to work”** (or return to work after a disability), has been observed to be stronger in business owners, management or higher level employees, professionals and high-income earners. It is also generally stronger in the older, married individual than in the younger, single person. However, these observations are simply generalities – each individual is motivated by different objectives. Some individuals will be disabled for a long time with what appears to be a minor physical impairment. Others who have a more serious ailment may return to work quickly.

While these findings reflect general trends which have been noticed in disability insurance claims experience, we do rely on your evaluation of this important aspect of our disability insurance applicants.

You meet the applicant face-to-face and have the opportunity to develop impressions about attitudes affecting motivations, so tell the underwriter about them on the agent's report or in a separate memo.

Recent immigrants, foreign residence and travel

Applications for disability insurance coverage are generally considered only from residents of Canada. Individuals who intend to reside outside of Canada are ineligible. The main reason for this is the difficulty of claims administration in a foreign country.

Most insurance companies will give consideration to applicants where temporary foreign residence or travel (outside Canada or the United States) is anticipated. Full details must be provided of the frequency, purpose and duration of the trips, type of transportation, cities and countries to be visited, duties while abroad, etc. Individuals travelling to remote or uncivilized areas, or politically unstable countries, are ineligible for disability insurance coverage. Others may be eligible with an exclusion rider and/or long waiting period. The Conditional Insurance Agreement should not be given to the insured on cases involving foreign travel (outside Canada or the United States).

Persons applying for disability insurance must not only reside in Canada, but must have done so for at least 1 year and have landed immigrant status. The insurer requires verification of stable employment and necessary information concerning the personal and medical history of the applicant. A minimum of 1 year of residency is necessary to do this adequately. Assurance that the insured intends to continue to reside in Canada is a must. Depending on the country of origin and the availability of medical records, there may be additional underwriting requirements (such as blood tests).

Military risks

Members of the armed services are not eligible for disability insurance. Member of reserve units of the armed services are eligible if engaged in an otherwise insurable occupation. Persons who are about to enter the armed services should also not be solicited.

Knowledge of English or French

It is important to note that the sale of disability insurance products can only be made to individuals, who are able to speak, read and write English or French. If the insured does not have this knowledge of English or French:

- A proper "meeting of the minds" is needed to establish a legally binding contract. This would not be possible.
- The required customer interview cannot be conducted.

- The disability insurance contract is a very technical one, and it would not be fair to take advantage of individuals by selling a contract which they may not fully understand.
- Numerous problems can occur at time of claim if the insured does not understand the terms, limitations, definitions, etc., of the contract and cannot properly communicate with the claim department.
- In the event of misrepresentation on the original application, trying to void a contract could be seriously compromised if an application has been accepted and signed by a person who obviously could not read or understand what the person signed.

Alcohol, drugs and criminal activity

It is widely accepted that any serious and prolonged deviation from “normal” lifestyles can and often does have an effect on morbidity. For example, the relationship between excessive drinking and highway accidents is often in the news. Also well publicized is the connection between non-medical drug use and chronic ill-health.

Clients admitting to a history of alcoholism, non-medical drug use or criminal activity may be uninsurable for disability insurance. For example, if your client admits to a history of alcoholism and has not been abstinent for five full consecutive years, he/she is uninsurable for disability insurance. Additional investigation will likely be required if the Head Office underwriter is able to proceed at all upon review of the complete application. The additional investigations may include an alcohol and/or drug use questionnaire, blood tests, inspection reports and complete attending physician statements. If able to proceed once all information is received, restrictions may apply.

Driving

While it is true that every violation of a traffic law does not result in an accident, studies do show that almost invariably the majority of accidents stem from violations. Studies reveal that the majority of the drivers involved in fatal accidents were violating traffic laws at the time of the incident. Speeding is a most significant risk factor. The ratio of actual to expected number of accidents, when there is a history of the traffic violations, rises significantly with a record of multiple violations. The finding of various studies show that there is a very real and significant hazard presented by the driver with an adverse driving record – the deadliest is drinking and driving. Because of this, the Head Office underwriter may require a motor vehicle record and an inspection report to properly assess the risk. If able to proceed once all information is received, restrictions may apply.

Sports and Avocations

Professional and Semi-Professional Sports – Coaches and athletes are not eligible for any disability insurance plan.

Recreational Sports – Those who participate in badminton, bowling, curling, fishing, golf, swimming, tennis baseball, hockey, skiing and similar recreation sports are generally eligible for disability insurance without restriction.

Other Sports – Those who participate in sports such as the following may require an exclusion rider with respect to such sport. The activity should be reported in detail in the agent’s report.

- | | | |
|---------------------|---------------------|----------------|
| * Automobile racing | * Karate | * Scuba Diving |
| * Boxing | * Motorcycle Racing | * Sky Diving |
| * Hang Gliding | * Mountain Climbing | * Tae Kwon Do |
| * Judo | * Rock Climbing | * Wrestling |

Other sports not listed above that subject the insured to risk of injury and sickness may also require an exclusion rider.

The Head Office underwriter needs to know the following about these sports:

- Qualifications (certified, etc.).
- Frequency of activity (past/present/future).
- Other relevant details where applicable, such as whether the sport is practiced alone, height or depth, speeds reached, etc.

Aviation

Ordinary passenger flying on commercial airlines is considered a normal hazard of every day life and is covered. If the insured has flown as a licensed pilot or crew member within the last 3 years and contemplates doing so or is a student pilot and Aviation Questionnaire must be completed. If there appears to be an unusual aviation hazard, an aviation exclusion may be used.

Private pilots who do not, at the time of application, qualify for standard coverage may expect an aviation exclusion, but removal will subsequently be considered on receipt of an Aviation Questionnaire establishing that minimum requirements for standard coverage have been attained. Availability of standard coverage will generally depend on the insured’s age, solo experience and annual flying time.

Commercial pilots and crop dusters whose principal or only occupation is flying are not eligible for disability insurance coverage with or without an aviation exclusion.

Smoking

Most insurance companies offer smoker and non-smoker rates. If the insured has smoked cigarettes at all in the last 12 months, smoker rates apply. If the insured has smoked marijuana within the last 12 months and is found to be an insurable risk, smoker rates will apply, in addition to any other modifications required for the marijuana use.

Misrepresentation of smoking status is significant. If misrepresentation is discovered, most companies will cancel (void) the policy and will not agree to adjust the premium or benefit amount. Combined Insurance is one of the few exceptions to this rule. For those policies which has smoker/non-smoker rates, Combined Insurance will adjust the benefit amount, if it is found the client was indeed a smoker.

Misrepresentation of smoking habits will be presumed to be fraudulent misrepresentation, in the absence of any other information. As a result the contract will be voided, whether the misrepresentation is discovered within the first two years or thereafter.

Insurability of part-time workers

The policy of most insurance companies is that anyone working less than 30 hours per week is uninsurable (30 hours per week or more is considered full time).

There are exceptions in selected situations for individuals who work between 24 and 29 hours per week. For an exception to be considered the insured should:

- Be in a white collar occupation – examples are nurses and dental hygienists.
- Work at least 24 hours each week – not 15 one week and 35 the next.
- Show stability – have worked at least 24 hours per week for several years (minimum previous 3 years).
- Earn at least \$15,000 per year on a part-time basis. and
- Have a clear file in all other respects (medical, lifestyle, etc.).

Seasonal employment

Individual who are employed on a seasonal basis do not qualify for the shorter start dates, and in some instances do not qualify for disability insurance on any basis. The guidelines which the underwriters follow in handling applications of this nature are as follows:

- **If the period of unemployment is no more that 4 weeks** – generally, no specific restrictions apply.
- **Period of unemployment 4 to 13 weeks** – will be considered with a minimum 31 day start date. Various optional benefit riders are not available.
- **Period of unemployment exceeds 13 weeks** – does not qualify for disability insurance.

In all cases, the insured must be employed at the time of the application is taken. The above refers to continuous periods of unemployment and not an accumulation of periods throughout the year. Generally, for an individual who has short periods of unemployment throughout the year, all start dates would be available.

These rules are required to avoid adverse claims experience that can occur when a claimant is ready to come off claim just prior to the off-season. There can be a tendency to either consciously or unconsciously extend the length of time required for recovery.

If, in making the sale, you learn of seasonal employment and write the application on the basis of the guidelines mentioned above, problems in placing the contract will be lessened, since you will not have to re-sell the client on a modified offer.

Examples of occupations which tend to be seasonal in nature and which, generally, will not qualify for the shorter start dates are paving contractors, bricklayers, landscapers, and many others in the construction or forestry industry.

Individuals who work from home

Insurability is generally not a problem where the insured:

- Leaves the residence on a regular basis to transact the insured's business – spending at least 30% of the insured's time each week outside the home. or
- Is a professional whose business and residence are at the same location and whose business requires that patients/clients visit regularly – such as physicians, dentists, professional accountants and lawyers.

Insurability becomes a problem when insured do not leave their residence on a regular basis to transact business. In these situations, questionable claims can be very difficult to administer (such as determining the degree and duration of disability) and the additional expense involved in adjudicating such claims is not covered by the standard premium rate. For example, a commercial artist could continue to produce sketches at a drawing board in his/her home without having to leave the residence or consult with anyone for long periods of time, while still claiming total disability. On the other hand, a chiropractor with an office in his home must either leave the home to attend to patients or have patients come there for treatment. It is easy to determine when the chiropractor has returned to work.

However, the numbers of people who work out of their homes continue to increase and represent an important market.

Applications will be considered on a selective basis. Applications will have a higher chance of acceptance if all positive factors are present.

Positive Factors	Negative Factors
<ul style="list-style-type: none"> Employed in the same occupation from home on a full time basis for at least 2 years. 	<ul style="list-style-type: none"> Employed from home for less than 2 years, part-time occupation.
<ul style="list-style-type: none"> Works as an employee of a firm. 	<ul style="list-style-type: none"> Unstable work history
<ul style="list-style-type: none"> Earns at least \$25,000 per year after business expenses. 	<ul style="list-style-type: none"> Earns less than \$25,000 per year after business expenses.
<ul style="list-style-type: none"> Proof of income supplied with application. 	<ul style="list-style-type: none"> No proof of income supplied with application.
<ul style="list-style-type: none"> Occupation requires a high level of technical expertise. 	<ul style="list-style-type: none"> Occupation does not involve a high level of technical skills/knowledge.
<ul style="list-style-type: none"> High amount of outside contact/people visiting the business. 	<ul style="list-style-type: none"> Low amount of outside contact/people visiting the business.
<ul style="list-style-type: none"> No or few employees. 	<ul style="list-style-type: none"> Several employees.
<ul style="list-style-type: none"> File clear in other respects. 	<ul style="list-style-type: none"> File not otherwise clear (i.e. history of psychiatric problems, poor claims record, etc.).

If the insured is deemed to be acceptable, most companies require the elimination period to be at least 91 days.

Uninsurable Occupations – Certain occupations are uninsurable due to our claims experience or other concerns. Examples are grocery/convenience store owners, artists and writers/authors.

Job stability

The length of time the insured has been in his present employment is an important consideration in measuring stability. A new employee is more likely to be laid off than one with seniority, and is more likely to fail at the new job, or decide that the job is not for him. Also the employee who has been at a job less than 6 months, but has demonstrated job stability for the previous 10 years, is a much different risk than the individual who is in his fourth new job in 2 years.

Individuals who have a history of unstable employment may produce adverse claims results for disability insurance. This aspect is of particular importance in an unsettled economic and employment environment. Recently self-employed “consultants” are a particular concern since these individuals are frequently just looking for work.

Remember – once a non-cancellable disability insurance policy is issued, it cannot be changed. Therefore, it is important that reasonable assurances the insured’s income will continue at a level necessary to support the amount of coverage issued. Otherwise, over-insurance will result.

Guidelines for job stability:

- **Employees** – an employee (in an employee/employer relationship) who has a history of frequent job changes will not qualify for disability insurance until the employee has been with the present employer for at least 1 year.
- **Self-Employed Persons** – That the insured be in the current business for at least 1 year, allowing the insurer to develop the pattern of income during that period.

For a newly self-employed person, it is even more important for the insurer to receive good documentation as to the likelihood of success in the insured’s new position. Information such as:

- The insured’s background.
- The circumstances under which the insured left prior employer.
- The likelihood of success in the new business/position, etc. and
- Copies of employment contracts.

A favourable indicator is where a person is prepared to initially “share the risk” with the insurance company, in terms of applying for a lower benefit amount and/or a longer start date.

To assist the agent in presenting cases on newly self-employed individuals, the following guidelines should be followed. The guidelines represent the two extremes – the factor which would be considered positive and negative. These guidelines are generic in that they address a variety of recently self-employed situations (some factors) may not apply in each case). An application will have a higher chance of acceptance if all positive factors are present.

Positive Factors	Negative Factors
<ul style="list-style-type: none"> • Stable work history. 	<ul style="list-style-type: none"> • History of frequent job changes/periods of unemployment.
<ul style="list-style-type: none"> • Current employment related to previous employment/experience. 	<ul style="list-style-type: none"> • Current employment not related to previous employment/experience.
<ul style="list-style-type: none"> • Reasonable evidence that the new business will succeed, such as copies of long term, renewable contracts 	<ul style="list-style-type: none"> • Unable to document chances of success of new business.
<ul style="list-style-type: none"> • Left prior employer for “positive” reasons. 	<ul style="list-style-type: none"> • Left prior employer for “negative” reasons (i.e. terminated, laid off, downsizing).

<ul style="list-style-type: none"> • No severance when left prior employer. 	<ul style="list-style-type: none"> • Received severance when left prior employer.
<ul style="list-style-type: none"> • Long start dates/short benefit period. 	<ul style="list-style-type: none"> • Short start date/long benefit period.
<ul style="list-style-type: none"> • Amount less than allowed under Issue & Participation Limits. 	<ul style="list-style-type: none"> • Amount based on maximum allowed under Issue & Participation Limits.
<ul style="list-style-type: none"> • Work from an office outside home. 	<ul style="list-style-type: none"> • Works from an office in home.
<ul style="list-style-type: none"> • File clear in other respects. 	<ul style="list-style-type: none"> • File not otherwise “clear”, history of psychiatric problems, etc.

Financial underwriting is one of the most difficult aspects that Head Office and field underwriters must deal with, and one of the least understood. With disability insurance, the relationship between the amount applied for and the insured’s earned income is much more direct than for life insurance. Therefore, it is much more important to establish the earned income with accuracy.

Issue and participation limits

Studies have shown that when an insured receives disability payments equal to more than 80% of after-tax income prior to disability, the insurance company’s claims experience worsens dramatically. The closer the benefit amount is to the disabled insured’s pre-disability income, the worse the experience. In other words, only an amount less than the pre-disability income, after tax, can be issued to ensure that the insured is sufficiently motivated to return to work. To avoid over-insurance, issue and participation limits are established.

For each occupational class, there are maximum amounts offered, regardless of the insured’s earned income. These amounts also represent the maximum amount of insurance in which the insured is prepared to participate, including coverage in force.

Earned income

Preservation of the financial incentive to return to work can be a fine line, and it is easy to over-insure the disability insurance candidate. Therefore, it is important to develop a complete and accurate picture of the insured’s financial situation. The only type of income that can be considered as properly insurable is earned income. Earned income is all payments received for services rendered, or as a result of active employment. If the insured is a salaried employee, the amount is the earned income before taxes. If the insured is self-employed, the amount is the earned income before taxes but after business or office expenses. Earned income depends on the insured’s employment status:

Salaried Employee

- Salary.
- Bonus, if earned on a consistent basis.

Commissioned Employee

- Commissions minus business expenses.
- Bonus, if earned on a consistent basis.

Unincorporated Business Owner (Sole Proprietorship, Partnership)

- Owner's share of the business' net income (after business expenses and before taxes). For a sole proprietorship, it will be 100% of net income. For a partnership, it will be the partner's percentage of ownership multiplied by net income.

Incorporated Business Owner

- Salary.
- Bonus, if earned on a consistent basis.

Keep in mind the amount of insurance already in force, and include this in calculating the amount for which the insured qualifies (based on both earned income and maximum issue and participation limits). This includes other individual disability insurance policies, accident only policies, monthly income benefits attached to a life policy, group and association coverage, established salary continuation plans and government plan benefits. Disability insurance for collateral purposes (creditor insurance) should be shown on the application, but it may be disregarded in establishing the amount of coverage for which the insured qualifies.

Coverage with a benefit period of six months or less will generally be disregarded if the start date applied for is 91 days or later, or if all disability coverage (including that of six months or less) does not exceed the applicant's monthly earned income. Coverage on which the benefit period exceeds six months will be counted at full value.

Business plans (such as overhead expenses or disability buy-out) should not be included in calculating the amount of personal coverage available. However, it is important to note that in cases where over-insurance exists in one type of product (e.g. personal) coverage may be limited on other types of plans (e.g. office overhead). If an individual is over-insured on one product line, it may adversely impact claims experience.

In determining the earned income, the insurer, as well as requiring earned income for the current year tries to get a picture of the income pattern over the past 2 to 3 years to make sure the current income doesn't represent a sudden increase based on unusual circumstances. In a situation where an insured's current income is significantly higher and completely out of line with past years, the amount of disability insurance allowed will likely be based on an average of the income over the past 2 to 3 years. **Earned income does not include** items such as interest or other investment income, rentals, royalties, income received from an annuity, income received from an inter-vivos or testamentary trust, pension or profit sharing plan or a government plan. These are known as **unearned income**. We also cannot include in insurable earnings any earnings which are not reported to Canadian Customs and Revenue.

If an insured has a history of bankruptcy that has not been discharged, disability insurance is not available. Disability insurance will be considered one year after discharge of bankruptcy.

Unearned income and net worth

Unearned income is income received other than directly for services rendered, or income that would continue despite a period of disability. The existence of a large amount of unearned income could reduce the insured's desire to return to work and is therefore taken into consideration in the financial underwriting of disability insurance.

Individuals with substantial unearned income may be "self-insured". Unearned income up to the greater of \$1,250 per month or 15% of the earned income, including fixed pensions, will **usually** be ignored. An amount in excess will be taken into consideration in establishing the amount of coverage for which the insured qualifies. It will likely result in a lesser amount being issued, and may also have an impact on the benefit period allowed.

Unearned Income is net annual income the insured receives from:

- Rents.
- Interest and other investment income.
- Inter-vivos or testamentary trust.
- Pension. and
- Other sources that will continue during disability.

An insurer might receive periodically an application on an individual who has a large net worth (generally defined as being in excess of \$3,000,000), but minimal unearned income because the individual's money is tied up in non-income producing assets. The individual may qualify for the maximum amount of disability insurance based on current earned income; however, the concern is the potential for future unearned income. It may be necessary to consider these resources as a form of "self-insurance". Unless such resources are taken into account over-insurance may result.

If the contract is non-cancellable, the insurer cannot change the amount of monthly income benefit when the insured starts receiving unearned income. An approach frequently used on these cases is to limit the benefit period to 60, or even 24 months, on the basis that if the insured is totally disabled for a period of time longer than this, the insured would likely liquidate a portion of the assets. This would result in an additional source of income which could reduce or eliminate the need for disability insurance. The policy with a 60 month (or 24 month) benefit period allows the insured time to liquidate assets, thereby avoiding a loss caused by a forced quick sale.

Financial documentation

The following represents the financial documentation required by most insurers.

Salaried Employee (no ownership)	Personal tax returns for most recent 2 years if amount is \$8,000/month or more (applied for and in force all companies).
Commissioned Employee	Personal tax returns for most recent 2 years if amount is over \$1500/month (applied for and in force).
Unincorporated Business Owner (sole proprietorship/partnership)	Personal tax returns for most recent 2 years plus complete financial statements for the most recent two fiscal years if amount is over \$1500/month (applied for and in force).
Incorporated Business Owner	Personal tax returns for most recent 2 years plus complete financial statements for the most recent two fiscal years if amount is over \$1500/month (applied for and in force).

Occupational Classifications

One of the most common problems field underwriters face is deciding which is the appropriate occupational class. Choosing the correct class is important as it determines:

- The plan or plans available.
- The maximum amount of disability insurance available.
- The premium rate to be charged. and
- The optional benefits available.

Considerable care should be exercised when describing the occupation and the business in the appropriate sections of the application. The nature or type of business and the exact duties of the insured should be readily and clearly understood from the information given. All occupations and duties, including those performed only occasionally, should be included. If additional space is required to amplify the descriptions on the application, use of the agent's report is recommended. For example, showing the occupation only as a "president" or "owner" of a business doesn't tell the underwriter what the person actually does.

The underwriter needs to know the exact duties and a percentage breakdown of all duties performed. A little extra descriptive detail can give great insight into the client's occupation, and result in quicker and more precise underwriting service.

This information is essential since the classification of each occupation is based upon factors which influence the frequency and duration of disability due to injury or sickness.

The three principal factors are:

1. The physical requirements of the occupational duties.

The more physically demanding a job is, the longer it will take before a disabled person is well enough to get back to work and meet the physical requirements of the job. To take an obvious example, a carpenter would be completely unable to perform any of the duties of his job for a considerable period of time if he broke his leg. An office worker, on the other hand, would probably be able to perform at least part of his job after a short period of disability. On average, an insured doing manual work claims longer for the same type of disability than an insured not doing manual work.

2. The environment, circumstances and working conditions under which the occupation is performed.

Similarly, the environment, circumstances and working conditions of employment are important. An insured may have an occupation in which there is no appreciable exposure to injury or sickness or where there are no strenuous physical requirements. There may be exposure, however, to extreme variations in temperature; or there may be a requirement to associate with undesirable individuals; or the nature of the occupation may be such that it attracts individuals lacking in stability and integrity or is affected by economic downturns.

3. The degree of exposure to occupational injury or sickness.

This is the factor most of us think of when we're trying to choose the correct occupational class for an insured. It's obvious that a worker in a steel mill is exposed to a greater risk of injury than a secretary. Someone working in dusty surroundings, such as a cement plant, is more liable to contract respiratory disease than is a person working in an air-conditioned office.

Applicants engaged in more than one occupation, even on a part-time or seasonal basis, are classified according to the occupation requiring the highest premium rate.

Most insurers' have 5 occupational classifications. Everyone who is insurable will fall into one of these categories. When the following occupational schedule does not list the occupation or where there's a doubt in your mind as to the correct occupational class, closely examine the insured's duties.

If after thorough consideration of the details of an occupation you still can't decide which is the correct occupational class, submit the application using the lower occupational class (requiring the higher premium rate). Send an accompanying memo giving full details of the insured's duties and ask for consideration for a more favourable classification. It's much easier to deal with a reduction in the premium rate originally quoted than to deal with an increase. Try to choose the appropriate class using the following general guidelines.

Class 4A

4A occupations involve the least amount of risk. These occupations have a very high degree of stability and are:

- "Fee for service" professionals, such as doctors, dentists, lawyers, and
- Business owners and executives who perform administrative and consulting office duties only, and who have an established record of stability and increasing earned income which consistently averages in excess of \$65,000 per year. A minimum number of employees are required. Generally, middle managers or supervisors will be employed to handle day-to-day activities.

Class 3A

This classification contemplates an occupation involving no physical exertion or effort other than expected in clerical or similar non-hazardous work. For the most part, this would consist of paper work at a desk or operating customary office business machines. The environment and circumstances surrounding the business should be those normally associated with the average business office. For example, the office should not be located at the site of an operation (e.g. mine or quarry) which, of itself, creates an occupational risk.

Executives and proprietors who perform office and administrative duties, except for periodic business trips, would qualify for 3A. However, if selling merchandise or a service is involved, the physical requirements are proportionately increased and a somewhat less favourable classification may be required.

When the owner or executive of a business comes in contact with or has direct connection with the manufacturing, processing or assembling of a product or merchandise, or is required to be in the area where such operations are in progress, a lower classification may be required.

Class 2A

The degree of risk or physical activity again increases in the 2A risk. A 2A risk normally has more specific physical duties than a 4A or 3A risk. These include some business owners and people working in a supervisory capacity. Examples: taxidermists, surveyors.

Certain professional people are included, not only because of the requirements of their profession (such as physical activities), but because technical and hygienic standards may also prolong periods of disability.

The proprietor or manager of a business, whose duties include supervision or inspection of plant operations, usually qualifies for 2A unless the operation involves heavy industry or presents significant occupational risk.

Duties must not include personal participation in the actual work being supervised. Most professionals who are not eligible for 4A or 3A, by reason of special duties or physical requirements, qualify for 2A.

Class A

A's are skilled manual workers. Normally "A" risks have a specific trade for which they are trained. Business owners in this category are usually "working" proprietors (perhaps a one person operation). Examples: upholsterers, plumbers.

This is the most favourable classification for applicants whose duties include any manual labour. The class is restricted primarily to skilled manual workers in lighter trades or industries, and some unskilled workers whose duties are light and where working conditions are favourable.

Supervisors and superintendents with light manual duties are included.

To qualify for Class A, there must be:

- An absence of extreme hazard from the products used in manufacturing, such as chemicals, explosives, extreme heat, etc.
- No particular hazard from heavy equipment, heavy machinery, overhead machinery or the product manufactured. and
- Assurance that duties do not require work to be performed at extreme heights, near a blast furnace, or in the vicinity of wires carrying high voltage.

Class B

"B" risks are normally occupations requiring heavy physical exertion. Their jobs involve a considerable degree of risk and on average, a high absenteeism rate. In general, this classification takes in all the remaining insurable occupations. Examples: janitors, brick layers.

In addition to the risk of injury, the main considerations are:

- The requirements of extreme physical exertion which result in prolongation of most disabilities. and
- Working conditions of extreme heat, humidity, or temperature changes which include frequent illness.

Uninsurable occupations (U)

In general, an occupation that is considered to be uninsurable presents such unusual hazards as to make it very clear that an insurer could not be expected to cover such an exposure. Not only would the risk call for a very high premium, but underwriting problems encountered would make it neither practical nor sound to consider such risks. There are also some occupations that are no longer insurable because of extremely bad claims experience.

Although uninsurable occupation comprise a very small group in comparison with those that can be insured, it would be impractical to give a complete list, particularly with the variation in job titles used in different businesses and areas. However, some examples of uninsurable occupations are underground miners, sandblasters, divers and taxi drivers.

Individual consideration (IC)

A few occupations must be considered on an individual basis for proper classification. These are designated by the letters "IC". Applications are to be submitted on a trial basis accompanied by a full description of the duties and any other pertinent information.

Wrong occupation class and its impact at claim time within the 2 year contestable period

An application for disability insurance is submitted showing the occupation as a contractor, with the occupational duties described as administrative and supervisory only. Based on this information, we issue a policy at occupational class 2A. The policy is in force, and 6 months later the insured submits a claim. In investigating the claim, we learn that the insured's occupation duties included carpentry work 2 hours a day, and this has been the case for the past 2 years.

If the insured had described his occupational duties as administrative, supervisor and manual at the time of application, the policy would have been issued at occupational class A, not 2A. Therefore, due to the insured's misrepresentation regarding all of his occupational duties, and since this was developed within the 2 year contestable period, we would have the right to cancel the policy, refund all premium paid to us by the insured, and refuse to pay the claim.

This is an action insurance companies do not like to take and reinforces the importance of correctly classifying the insured's occupation at time of application.

Enhancement of occupation classification

Most insurers will allow an upgrade of occupation classification provided the following principles are followed:

Class	Upgraded to
A	2A
2A	3A
3A	4A

Criteria for upgrading 3A to 4A

For Employees – The insured has earned an income of at least \$75,000 per year for the past 2 years and has been employed with the current employer for at least 5 consecutive years.

For Self-Employed – The insured has earned a net income of at least \$75,000 per year for the last 2 years and has been the owner in the current business for at least 5 consecutive years.

Criteria for upgrading 2A to 3A

For Employees – The insured has earned an income of at least \$55,000 per year for the past 2 years and has been employed with the current employer for at least 5 consecutive years.

For Self-Employed – The insured has earned a net income of at least \$55,000 per year for the last 2 years and has been the owner in the current business for at least 5 consecutive years.

Criteria for upgrading A to 2A

For Employees – The insured has earned an income of at least \$45,000 per year for the past 2 years and has been employed with the current employer for at least 5 consecutive years.

For Self-Employed – The insured has earned a net income of at least \$45,000 per year for the last 2 years and has been the owner in the current business for at least 5 consecutive years.

Issue and participation limits and benefits

When an occupation class is upgraded the insured will qualify for the issue and participation limits and the benefits available at the higher class.

Medical Underwriting – Disability Income

The nature of disability insurance products requires that many physical conditions and impairments be given more attention than in life insurance. These considerations may result in the decision to issue a modified policy because of the potential for disability.

For example back trouble or a sinus condition, which have little or no effect on length of life, may cause disabilities or require medical care.

Disease may affect disability resulting from injury, as well as disability resulting from sickness. For example, a person with high blood pressure may sustain an injury because of an attack of dizziness while driving a car or operating a machine. In addition, a person with heart disease or diabetes, who sustains an injury, may have a prolonged period of disability because of the impairment.

One major difference between life and disability insurance underwriting is that there is very often more than one underwriting approach to handling the impairment for disability insurance.

The important points to consider with any medical history are as follows:

- The possibility of recurrence
- The effect of the medical history on the general health of the insured
- Complications that may develop at a later date
- The normal progression of any impairment and
- How this normal progression might interact with a disability arising from an unrelated cause in the future.

When it comes to the medically impaired risk, a number of techniques can be utilized. These include excluding the impairment issuing coverage with an extra premium, extending the waiting period, reducing the benefit period, or using a combination of these depending on the number and nature of the impairments.

Exclusion riders

The **most common method** of handling a medically impaired risk is to use an **exclusion rider** which excludes coverage for a specific impairment or area of the body. The use of an exclusion can enable the underwriter to issue a policy to a person who would otherwise be declined because of a serious, recent or ongoing medical problem from which the insured could become disabled. Insured's falling into this category are persons who have structural damage to their backs, various types of kidney problems, asthma, bowel disorders, etc. Some of these candidates cannot be offered unrestricted disability coverage, but can be allowed a policy with an exclusion rider which would exclude the medical impairment for an indefinite period of time. By excluding coverage for disability arising from an impairment, the insurer is able to grant insurance against disability from other causes.

Some impairments do not require a total exclusion since the probable length of a disability is usually limited to a short period of time. For example, a person with hemorrhoids will usually experience a relatively short disability; therefore a limited exclusion rider for this impairment might be used to exclude coverage for only 60 or 90 days. Beyond that point the odds of a disability continuing are much less, and most insurers are willing to assume the risk of paying a claim in those situations where the insured is disabled beyond the period excluded.

Some conditions are too broad in scope and too difficult to define to be adequately covered by an exclusion rider. Some other conditions such as overweight, hypertension or diabetes have too many complications that would have to be excluded, so that either the rider would be so broad as to leave little protection for the insured, or so narrow as to leave little protection for the insurer. When dealing with these medical problems, an extra premium may be appropriate as long as the condition is under reasonable control. In these cases there may also be a modification to the benefit period and/or the waiting period.

Extra premium

Another method of handling a medical impairment is to issue a policy with an extra premium. This provides the insured with coverage for all impairments. However, it is not always practical to use this approach since it would be impossible to charge enough extra premium to cover a medical impairment where the insured could choose to claim for disability as soon as the policy is received. An example of this would be an insured with a serious back problem. This person could not effectively be covered with an extra premium, as the insured's problem is immediate, and a claim could be forthcoming immediately after we issue the contract. An exclusion rider is necessary in these circumstances.

The use of an extra premium is limited to those cases where the insured is not currently displaying and disabling symptoms, but has a medical condition that could deteriorate and cause a disability at some later date. Examples of medical problems that fall into this category are moderately elevated blood pressure, overweight, mild adult onset diabetes, mild forms of controlled epilepsy and some cases of mild but well controlled respiratory problems. The moderate hypertensive may not display any symptoms currently, but over a period of time that same individual may become disabled due to the complications of cardiovascular disease.

Extending the waiting period

If an insured has a number of relatively minor medical problems, such as hemorrhoids, psoriasis, muscle strains, etc. consideration might be given to extending the waiting period to 60 or 90 days and issuing the policy without an exclusion rider. The longer the start date, the less need there is for most exclusion riders.

Some impairments that would require an exclusion rider on a policy with early starting days can be accepted on a standard basis with a 90 day or longer start date. Agents should be alert to the fact that by applying for a longer start date it may be possible to avoid having a policy issued on a modified basis.

Reducing the benefit period

Another method sometimes used in underwriting medically impaired risks is reducing the benefit period. This is done when a substantial extra premium is being charged, or when the nature of an insured's condition is such that there is a greater risk of a long term disability. An example of such a case would be one where a 100% extra premium is required due to hypertension and/or overweight.

Removing an exclusion rider

At time of issue, most insurance companies will advise the agent if an exclusion rider or rating can be reconsidered, reduced or removed. In some instances, the condition necessitating the exclusion or rating will be significant enough to prevent future reconsideration. If reconsideration is possible the Head Office underwriter will suggest at what point in time the client may request reconsideration and in many instances the reconsideration period will be shown on the exclusion rider itself.

In no event will reconsideration for removal be given during the first policy year.

To apply for reconsideration of rating/exclusions it is necessary to submit a completed Application for Reconsideration. The Head Office underwriter will advise the agent of any additional evidence required.

Most significant medical problems

Some types of impairments are frequently structural in nature, such as those affecting the musculoskeletal system of the body. Back conditions are clearly the most common impairments in this category and are frequently used as examples of the differences in disability and life insurance underwriting approaches.

Disorders of the knee joint (the joint in the human body most susceptible to injury) are also commonly of concern to the disability underwriter. Other joint problems such as arthritis, bursitis and tendonitis, may require substandard underwriting for disability insurance, but these are of little concerns to the life insurance underwriter unless the severity raises questions about the impact on the waiver of premium benefit.

Disorders of the nervous system present unique problems to the living benefits underwriter. A medical history of a non life-threatening condition, such as nervous tension, mild depression, anxiety state, or various other types of nervous problems, is difficult to quantify. The life underwriter would be concerned with only the more serious nervous and psychological problems.

The living benefits underwriter must be concerned about any of these that could result in disability, or prolong the recovery time from a disability caused by some other unrelated problem.

One must remember the importance of stability and motivation to the incidence and length of disability claims. The more subjective the impairment, the greater the opportunity for misrepresenting or extending a claim. Impairments of the nervous system, and to a greater extent musculoskeletal impairments, carry with them a substantial subjective element. Hypochondriacs may live to complain about various physical problems well beyond average life expectancy, but they may also use their disability policies frequently.

In addition to the above mentioned significant medical problems that may have little effect on life insurance, it is worth noting that impairments that do affect life insurance have an even greater impact on disability insurance. Some of these are high blood pressure, obesity, digestive problems, diabetes and epilepsy, to name just a few.

In the final analysis, the potential motivation of an impaired individual is underwritten as carefully as the medical impairment itself. It is assumed that in cases where there is an existing medical problem; claims may be more frequent and costly than for standard risks, since the known impairment may result in a disability at any time. The danger of malingering is greater, since the person has a built-in disability that may be used to substantiate a claim if the insured discontinues work for any reason. The underwriter must attempt to evaluate the degree of the insured's acceptance of an existing impairment through the insured's demonstrated ability to cope with the insured's occupational responsibilities. Another important aspect in underwriting any case is the consideration that must be given to the occupation. Individuals involved in very strenuous physical occupational tasks require stricter handling than those who are involved in more sedentary non-physical occupations.

In any event, we always try to issue on the basis that is most appropriate in the particular circumstances of the case, by using one or a combination of the methods mentioned above.

Underwriting back problems

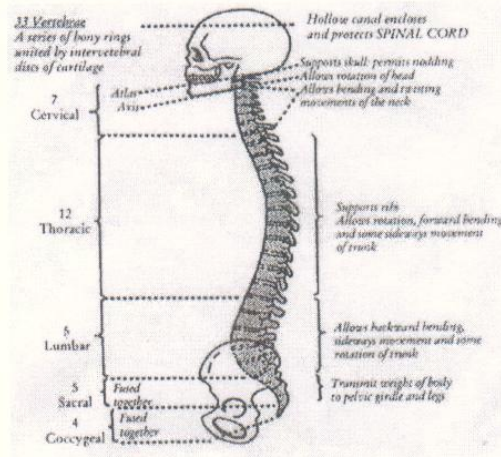
Of all exclusion riders used, the back exclusions are the most common, constituting almost half of all riders imposed on disability insurance policies. Back problems also account for about 15% of all claims we receive. To improve your ability to place cases with an exclusion rider, we believe that it is important for you to have some knowledge of the back's structure, basic causes for discomfort, and likely underwriting action.

MEDICAL UNDERWRITING (CONT.)

Structure of the back

The back is made up of 33 vertebrae. These are a series of bony rings united by flexible intervertebral discs of cartilage and muscles collectively called "soft tissue". The back, or spine, is divided into 5 areas:

The Vertebral Column is Basis of Skeleton



Cervical area (neck) is made up of 7 vertebrae and is responsible for supporting the skull and permits nodding, bending, twisting and rotation of the head.

Thoracic area (mid-back) contains 12 vertebrae and is responsible for supporting the ribs. This area allows rotation, forward bending and some sideways movement of the trunk.

Lumbar (low back) area is made up of 5 vertebrae allowing backward bending, sideways movement and some rotation of the trunk.

Sacral and coccygeal areas are made up of 5 and 4 vertebrae respectively. The vertebrae in these areas are fused together and transmit the body weight to the pelvic girdle and legs.

The back is a very sophisticated shock absorber for the body and is subject to considerable stress, leaving it vulnerable to injury.

The nature and diagnosis of any back disease or injury, the associated damage, the length of disability, frequency of occurrence, and type of occupation are all important aspects that an underwriter must assess prior to arriving at an underwriting decision.

It is sometimes difficult for the insured to appreciate our concerns regarding back problems. The individual who has had a back problem may feel as though there has been a complete recovery, and with the passage of time may lose sight of the seriousness of the problem.

Some of the more common back problems

1. **Cervical Sprain** (whiplash) – is an injury to the cervical (neck) area caused by a blow resulting in a sudden extension of the “soft tissue” between the vertebrae. It may be treated by a cervical collar, but symptoms can persist for a long period of time.

If the disability is prolonged or recurring, or if there is a structural damage to the discs, then an exclusion would be required even though the insured may currently be symptom-free. However, if there is no structural defect and the recovery period is short, an exclusion to the cervical area of the back until 1 to 2 years after the accident would be the norm, depending on the occupation, and then consideration to accepting the risk on a standard basis.

2. **Spinal Curvature** – the normal flow of the spine may be affected by such problems as bony deformities and muscle deterioration or imbalance. The most frequently deformities are:
 - Kyphosis – hunchback or backward curvature.
 - Lordosis – forward curvature.
 - Scoliosis – sideward curvature.

An insured with only mild curvature and no history of any major back complaints may be accepted on a standard basis. Where the curvature is moderate, continuing deterioration over a period of time will probably result in disability, and on that basis a spinal exclusion is necessary.

If there is a major curvature or any spinal cord involvement a declination is indicated. Major curvatures can also affect heart and lung function.

3. **Spinal Disc Disease** (herniated disc) – spinal disc disease is most frequently found in the lumbar and cervical areas of the back. Between each vertebrae is a disc made of cartilage. These discs absorb the shock between the spinal vertebrae. If they flatten or protrude they can pinch a spinal nerve resulting in a very painful back and a degree of disability. Symptoms from this type of disease may disappear with medication, traction and rest, but they can easily recur at any time. Prolonged symptoms can necessitate surgical intervention and even that may not totally eliminate the painful symptoms in some instances. Also, disability **can** be total and prolonged, depending on occupation.

If there is evident structural damage to the insured’s back and the insured is employed in an occupation requiring physical exertion, an exclusion rider covering the area of the back affected is mandatory, with little chance of removal. However, if the insured is employed in a non-physical occupation, the problem is treated with only rest and traction, recovery period is short, and there has been no recurrence of symptoms for a 5 year period, consideration will be given to allowing a standard contract.

Where there has been surgical intervention and the insured is involved in a non-physical type of occupation, consideration for a standard contract will be given after there has been a minimum of 5 years with no indication of a further back disorder.

4. **Lower back pain** – normally involves the lumbar/sacral areas of the back and may be the result of an injury to the muscles and supporting ligaments or may be the result of a displaced or ruptured intervertebral disc. If the low back pain is a result of a disc problem, the handling will be as per number 3, “spinal disc disease”, above. However, if the pain is as a result of a sprain or strain to the ligaments, the problem is non-recurring, and there is complete recovery within a short period, we would exclude the area of the back affected until the applicant has been symptom-free for a 24 month period. After that time, standard coverage may be granted. If the insured is involved in an occupation requiring physical exertion, the symptom-free period for consideration of a standard contract may be longer.
5. **Spondylosis/spondylitis** – spondylosis is a degenerative arthritis of the spine. There is a recognizable degree of spondylosis in all humans by age 50. Often the x-rays of those who have symptoms are no different from those who do not. Because of the difficulties in controlling back claims, anyone with these x-ray changes and a past history of symptoms is likely to get a policy with an exclusion rider.

Spondylitis usually refers to ankylosing spondylitis which is a specific inflammatory disease of the joints of the spine. It is somewhat analogous to rheumatoid arthritis in other parts of the body. Because there are other problems outside the spine associated with the disease, many of these cases are not suitable candidates for disability insurance.

Based on the information on the Part B of the disability insurance application and that obtained from a doctor’s report, an offer may be available, but only with an extensive exclusion and a reduced benefit period.

Other aspects that are considered

1. If the back disorder is of a borderline nature, we may be able to issue without an exclusion, if the insured is employed in a 4A or 3A occupation, where very little physical exertion is required. The chance of a recurrence or a lengthy disability for a person in these occupations is not as great as for those employed in A and B occupations where much greater physical exertion is required.

2. The underwriter takes into consideration how well the medical history has been detailed on the part two. The underwriter always more likely to handle a borderline situation leniently when the insured has been open and honest in providing all the history. However, if history has been withheld and is developed from a third party, the underwriter becomes concerned as to whether or not he has the full story, and is more likely to exclude a borderline medical condition.
3. **Starting dates** – when the back disorder is borderline or minor, the underwriter is in a better position to make a liberal decision if the coverage is applied for with a longer waiting period, such as 90 days.

Whenever possible, riders which exclude coverage for a limited period of time are used. For example, in some circumstances an exclusion may be applied to the back for the first 180 days. This means, in effect, we are providing a 181st day start for disabilities of the back.

4. **Stability** – in arriving at a decision, the underwriter always looks at the insured's occupational and financial stability. If the history appears borderline, we will, in most instances, find a favour of a lenient decision when the insured demonstrates financial and occupational stability. On the other hand, if there is a history of frequent job changes and large fluctuations in income, there is a greater risk that in the event of a claim the insured will try to extend it due to a lack of motivation to return to work.

The most favourable underwriting handling is possibly only when the insured has made a full and complete disclosure of all medical history. The onus is on the representative to provide the underwriter with complete and accurate information.

Reports from attending physicians

A Head Office underwriter uses, amongst other things, age/amount limits for determining the need for reports from attending physicians (APS). Discretion is used in applying these limits. Factors such as reason for consultation, start date, benefit period and other risk factors are used in determining the need for a report.

As previously mentioned, many medical impairments which are standard for life insurance could, in fact, result in a disability. For this reason you will notice that there are more reports requested on disability cases as these reports are a very valuable source of information in the assessment of morbidity.

Conclusion

The purpose of this module has been to provide you with an overview of what an underwriter deems important when analyzing a Disability Income Application.