Underwriting Guidelines for financial information

Financial Underwriting: determining if the need and amount of insurance being applied for is reasonable based on the insured’s financial situation. (New FinancialGuidelines object.)

1. Income – insured/spouse/household/juvenile
2. Bankruptcy - Model using the BankruptcyGuidelines construct as an uninsurable risk.
3. OFAC hit - Model as a MiscellaneousGuideline for an uninsurable risk.
   1. TODO: Add a type code for this to the Miscellaneous Guideline Type table.
4. Reason(s) for insurance (refer to NAILBA guidelines) – mostly map to values in the ExpenseNeedTypeCode (Need Type) list.
   1. Replacement of Income (includes age range and factor times income)
   2. Debt Protection (business or personal)
   3. Charitable contributions
   4. Key Person
   5. Non-working spouse
   6. Buy/Sell
      1. Application: one million or percent ownership X market value
      2. Financial supplement maximum - amount or percent ownership X business current net profit X 10 (probably an estimate of the value of that share of the business)
   7. Estate planning
5. Debt Repayment
6. Total Amount of Insurance/Net Worth – data that is needed for suitability but not a separate guideline.
7. Financial needs analysis – map to values in the IntentCategory (Intent Category) code list.
   1. Personal
   2. Business
8. Credit History
9. Commercial Inspection Report (Need more info as to what this is.)
   1. Personal History Interview (PHI) may be considered in lieu of a commercial inspection report for certain face amounts if financial information is provided with the app.
   2. PHI’s may be requested for personal or business insurance.
   3. Commercial inspection reports seem to be more similar to PHI’s but apply for larger face amounts.
10. For business purposes, a third party financial statement for certain (high) face amounts
11. Max ratio or percent of some amount such as income by Min/MaxAge
12. Premium (rather than face amount) > specified percentage (e.g. 5%) of Gross Income

FinancialGuideline will include IntentCategory and ExpenseNeedTypeCode to describe the type of guideline using the mapping provided below:

|  |  |  |  |
| --- | --- | --- | --- |
| Needs Guideline Type | Need Type | Intent Category Type | Notes |
| Income Replacement  (same as Income Continuation?) | 2= Family Income Cont. (Death) | 4=Personal |  |
| Spouse with no earned income/Non-working spouse |  | 4=Personal | No existing Need Type |
| Juvenile / Children’s Coverage |  | 4=Personal | No existing Need Type |
| Debt Repayment (Personal) | 48=Family Protection (def mentions Loan Repayment)  OR  24=Debt Payment | 4=Personal |  |
| Estate Conservation | See note | 4=Personal | Need Type tc=47 is Estate Liquidity with definition of “Estate Conservation”  Need Type tc=10 is Estate Planning |
| Charitable Giving | 9=Charitable Giving | 4=Personal |  |
| Debt Repayment (Business) | 24=Debt Payment | 3=Business |  |
| Buy-Sell  Business Continuation  Business Succession | 35=Buy/Sell  38=Business Continuation  56=Success Planning | 3=Business |  |
| Key Person | 36=Key Person | 3=Business |  |
| Estate Taxes | See note |  | Need Type tc=10 is Estate Planning |
| Business Loan | 39=Loan Indemnification (def specifically mentions business loans) | 3=Business |  |
| Gifting  Includes Grandparent Gifts | 8=Gifting |  |  |
| Older Age Coverages (Retirees or post-specified age such as 70) |  |  | No existing Need Type |
| Deferred Compensation | 34=Deferred Compensation | 3=Business |  |

Each FinancialGuideline may have zero to many rules defined. The following table describes the examples of rules that might be needed for each:

|  |  |  |  |
| --- | --- | --- | --- |
| Financial Guideline Type  (IntentCategory + ExpenseNeedTypeCode) | Needs Rule Type | Example | Notes |
| Personal Insurance - Income Replacement  (Also Income Continuation) | Min and/or  Max Factor \* Income | |  |  | | --- | --- | | Ages | Factors | | 20-35 | 20x-30x | | 36-40 | 15x-25x | | 41-45 | 14x-20x | | 46-50 | 12x-20x | | 51-59 | 10x-15x | | 60-64 | 7x-10x | | 65-70 | 4x-10x | | 71+ | 4x-5x | | Typically varies by an age range  Age and income typically apply to the prospective insured  Various definitions of “Income”; examples include:   1. Just “Income” 2. Gross Annual Earned Income 3. Previous 3 years income tax averaged 4. Net Income 5. Earned vs. unearned income |
| Non-working spouse | Max percentage of working spouse’s coverage, sometimes with a max amount | Up to 50% of working spouse’s coverage with a max of $1,000,000 | Varies by age, min and max coverage amount on the non-working spouse  Typically includes a percentage applied to income-earning spouse’s **coverage** |
| Juvenile/Children’s Coverage | Max percentage of parents’ coverage, sometimes with a max amount | Up to 50% of parents’ coverage with a max of $250,000 | Other rules may apply, such as “siblings should be insured for similar amounts”. There may be different limits by state.  For illustrative purposes, assume NY only allows a max value of $200,000 |
| Debt Protection (Personal) | Min and/or max percentage of loan balance | 100% of Home Loan  50-75% of loan balance for other types of loans | Varies for type of loan  Sometimes includes a minimum loan period  May include Line of Credit, for which there is no specific Loan Type.  May need to specify collateralized vs. non-collateralized loans. |
| Debt Protection (Business) | Min and/or max percentage of loan balance | 50-75% of loan balance  80% of loan with term periods of 5 years or more. | Sometimes includes a minimum loan period  May include Line of Credit, for which there is no specific Loan Type.  May need to specify collateralized vs. non-collateralized loans.  Additional restrictions may apply, such as the business must own the policy or the policy term cannot exceed the remaining term of the loan by more than 10 years. |
| Charitable Contributions | Maximum amount or max factor \* gross annual income  OR  Maximum amount or factor \* average annual donation to any charity over specified history duration | Application-Only Maximum:  $100,000 or 4 \* Gross annual income  Documented Maximum:  $1,000,000 or 50 \* average annual donation to any charity over the most recent 3-year period of giving | Typically based on contribution history and personal needs having been met  There may be two kinds of maximums:  Application-only and Documented  The difference seems to be the level of supporting documentation – “application-only” is the insured’s answer on the app, “Documented” includes more formal documentation of the contributions? |
| Key Person | Max factor \* annual income | Up to 10 \* annual income | May vary by issue age  Additional restrictions may apply, such as the owner and beneficiary must be the business  OR  Non-wage benefits (stock options, bonuses, perks – housing or auto) may not exceed 30% of wages.  Time with company? |
| Buy/Sell  Business Continuation  Business Succession | % ownership \* corporate value (fair market value)  Maximum amount  OR  % ownership \* corporate value (fair market value)  Maximum amount  OR  % ownership \* business’ current net profit \* factor | Application-Only Maximum:  $1,000,000 or percent ownership \* market value of business  Financial Supplement Maximum:  $5,000,000 or percent ownership \* business’ current net profit \* 10 | There may be two kinds of maximums:  Application-only and Financial Supplement Maximum The difference seems to be the level of supporting documentation – “application-only” is the insured’s answer on the app, “Financial Supplement Maximum” includes detail as provided on this particular form?  Additional restrictions may apply, such as the owner and beneficiary must be the person or entity that will (or has the option to) buy the insured’s interest in the business. |
| Estate Conservation | Total personal assets and liabilities as well as current age | Total personal assets and liabilities as well as current age | Need to identify specific differences between these three “Estate” codes and confirm their mapping to Needs Type codes (see above). |
| Estate Planning |  | Estate value appreciation at 6 % for one-half the greatest life expectancy or 8-10 years | Need to identify specific differences between these three “Estate” codes and confirm their mapping to Needs Type codes (see above). |
| Estate Taxes | Tax Liability + Administration Costs | Tax Liability + Administration Costs | Need to identify specific differences between these three “Estate” codes and confirm their mapping to Needs Type codes (see above). |
| Older Age Coverages (Retirees or post-specified age such as 70) | Half of net worth or 3-5\* Earned Income  Federal exemptions that eliminate tax liability:  Total line=[earned income plus retirement social security]\*5 + 15-20% of Net Worth | Half of net worth or 3-5\* Earned Income  Federal exemptions that eliminate tax liability:  Total line=[earned income plus retirement social security]\*5 + 15-20% of Net Worth  Contemplation of death rule? |  |