



What Every Advisor Needs to Know About Impaired Risk

by Allan D. Gersten, CLU, CFP®, ChFC, as seen in



First things first. Opening an insurance sale is an art with an endless variety of approaches involving client needs and objectives. Despite the tendency of some advisors to gloss over this phase of a case, it's essential to consider them before delving into the underwriting requirements. A proper handling and understanding of what the client and advisor need to present to underwriting is the difference between success and failure.

Current and past medical history are basic to the medical underwriting of an application. The financial requirement must be clear, outlined, and justified as to whether it's a business or a personal need. Personal habits, personality factors, hobbies, and sports activities can be risk factors that an underwriter will assess.

In the same way, probing to understand the client's health status is necessary. It's a mistake to assume that every case is a "clean case," one with no underwriting obstacles that will have clear sailing to a quick approval. This means asking medical history questions that are by definition always "personal." If this makes an advisor uncomfortable, it's worth realizing that failing to ask them may be far more painful than doing a thorough job upfront.

A Methodology for Opening an Impaired Risk Case

There are levels of engagement in the underwriting process.

1. *"I've got a guy."* This occurs when advisors call a favorite underwriter to see how a particular impairment figures in with the desired insurance strategy. Carrier selection or carrier niches may be discussed, including the range of possibilities, particular concerns, need for additional information, and probable outcomes. This is a quick way to move the process along and to secure a better understanding to advise the client. There are forms that address specific impairments along with questions that are helpful in scoping out case outcomes.
2. *Trial Applications.* The best method when an advisor wants to get as close as possible to an ironclad offer for the client. Using this technique requires the advisor and underwriter to collect and construct the file. This involves getting the client's HIPAA authorization so the attending physicians' files can be secured.

The brokerage underwriter summarizes the key aspects of the file and anonymously submits it to selected carriers to determine where they will underwrite the case. The brokerage underwriter uses this step to drill down to select which carrier will receive the entire file as an informal application.

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At this point the client has not made a formal application, and the results are not reported to anyone other than to the brokerage underwriter. This way the advisor avoids the embarrassment of submitting a formal application and having it modified.

Know that Each Risk is Unique

If the advisor fails to engage clients in a conversation on health and lifestyle issues there can be serious consequences—it may seem as if the advisor isn't interested, doesn't care, or is in a hurry. Speaking openly and honestly with clients helps the advisor understand an individual's frailties, concerns, thoughts, and desires.

It may be that more care is needed when discussing a client's medical history as compared to the client's financial information. Shifting gears from one to the other requires a degree of finesse.

What may seem a non-threatening factor from an underwriting perspective may be a challenge for a life company's underwriting criteria and vice versa. Sometimes what appears as problematic works out well. Life underwriting can drill down on nuances that the clinical practitioner doesn't view as important, while life underwriting believes they have critical mortality implications.

Be Positive About the Outcome

Remember, it's always better to know what we don't know. There's every reason to be positive about a good outcome for your impaired risk case. Keeping an open mind when working an impaired risk case is invaluable. While past underwriting failures are considered, they should never be allowed to close off other potential underwriting channels.

Open communication between the advisor and client is essential to achieve the best solution. Clients may try to obscure, distort, or be anything less than forthcoming when discussing their health history. Some are either in denial about an impairment or they may simply not understand the impairment's significance in the underwriting process.

It's also possible that a client may intentionally obscure information, believing incorrectly that the reality of the health issue can remain hidden. The competent advisor rejects such behavior and with skill and caring gets the client talking. Knowing the realities about a client upfront will always enhance the process and lead to the best possible outcome.

Time Frames and Challenges to Getting Impaired Risk Cases Done

Do impaired risk cases take more time? Yes, an impaired risk case takes more time to complete than a "clean case" with no significant medical history. While this is true, it doesn't need to take much more time if the client is cooperative and helpful in the underwriting process—an active member of the team working to present a well-prepared package to the company. "Clean cases" require attending physician records as do impaired risk cases. Both require attending physician reports, the component that often delays what could be a speedier process.

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Engaged clients, who are participants and not bystanders, help obtain a good result. It's also true that when clients understand what is involved in getting offers, they can be more willing to accept a rated policy.

Managing Expectations

As with all advisor interactions, it's better to under-promise and over-deliver. Clients can find the underwriting process disturbing and react emotionally. This is easy to understand since health data is being sliced, diced, and slotted into a mortality category.

Managing expectations is particularly critical when dealing with plans that cost more than what was expected or than others. Everyone wants to believe they will live forever, which makes facing up to underwriting decisions and higher costs particularly stressful.

All of which is to suggest that knowing what a client's impairment means in an underwriting and pricing context as early as possible helps the advisor manage a client's expectations.

The Rewards

Impaired risk is no longer the exception. Far from it since nearly half of all life insurance cases now fall into this category. This makes it incumbent upon advisors to understand the process so they are prepared to best serve their clients.

Without question, working impaired risk cases has other benefits. They can enhance the advisor/client relationship by building mutual trust and confidence. The advisor, who helps clients solve the risk and family security parts of the financial planning process, can look forward to receiving referrals that lead to insurance sales.

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