How Individual Underwriting Works for People

People Joining Together to Financially Protecting Each Other

Insurance is based on a relatively simple concept—a group of people can collectively bear costs that would be too great for any one member of the group to handle individually.

Every member of the group – every policyholder -- can customize their coverage. They can determine how much financial protection they want and for how long. They can choose a policy that allows them to decide when they pay their premiums and how benefits will be paid.

A key to life insurance company products is the grouping of individuals with into “pools” to share the financial risks presented by dying prematurely, becoming disabled, or needing long-term care. Grouping people together makes affordable protection against financial loss possible.

Classifying Risk Allows Companies to Fairly Price Products

The price people pay for coverage is based on many factors, such as age, sex, health, family medical history and smoking status. Life insurers typically do not make decisions based on any one factor. They group together people with similar characteristics and calculate a premium based on that group’s level of risk.

People with similar risks pay comparable premiums. Non-smokers typically pay a lower premium than smokers, for instance. The use of such relevant information helps make sure an applicant with a low risk is not unfairly grouped with people who may pose high risks. The proper classification of risk ensures fair pricing for all.

Proper risk classification also prevents “adverse selection.” Put simply, adverse selection can imbalance a “pool” with too many high-risk people, driving up costs for consumers and affect the availability and affordability of coverage.

One Evaluation for a Life Insurance Company Product

Insurers essentially get “one bite at the apple” to use the information gathered to fully evaluate the risk they are being asked to assume. It is a voluntary purchase, with different rules than health insurance and other forms of insurance protection.

Once a policy is issued, the insurance company cannot cancel it because of changes in the insured’s health, nor because of claims made by other policyholders in the group The only way a person’s policy can be canceled is if he or she does not pay their required premiums.

Life’s Uncertainties Managed Through Insurance

By helping people manage risk, life insurers do what no other industry can: provide millions of Americans with financial protection against the uncertainties of life. It is the process of risk classification that allows the life insurance industry to guarantee its promises—even if that means paying a claim soon after the policy is purchased. This enables Americans to protect their families at every stage of life, no matter what unexpected event might occur.

It is a system that is working for people and families across America.