CHAPTER FIVE

LIFE AND HEALTH INSURANCE

**I. LIFE INSURANCE**

Life Insurers pay death benefits to designated beneficiaries when the insured dies. The death benefits are designed to pay for funeral expenses, uninsured medical bills and other expenses due to death.

Premature Death: - can be defined as the death of a family head with outstanding unfulfilled financial obligations, such as dependents to support, children to educate, and a mortgage to pay off.

**Costs of Premature Death**

1. The family's share of the deceased earnings is lost forever.
2. additional expenses are incurred because of funeral expenses, uninsured medical bills, estate settlement costs,
3. because of insufficient income, some families will experience a reduction in their standard of living
4. Certain non economic costs are incurred, such as emotional grief, loss of a parental role model, and counseling and guidance for the children.

**Documents Needed for Policy (contract)**

The Policy documents needed to in force the insurance contract include the proposal form, the Policy form, the Medical Report and any other supplementary contracts. The Medical Report is used to assess insurability. Other factors to assess insurability include age, sex, physical condition, medical history, family history, occupation, habits and the like.

**FACTORS CONSIDERED IN LIFE INSURANCE UNDERWRITING**

Quite often, life insurance coverage is aimed at protecting the dependents of the insured from suffering financial losses in case of his premature death.  This means that the coverage is usually connected with the occurrence of death to the insured. As a result in life insurance underwriting the factors that are considered or examined are those that influence morality. These include age, sex, current physical condition personal medical history family medical history occupation habits, avocation marital status and the like.

**Age**

This is the most important factor to consider in life insurance underwriting. The likelihood of death or illness generally increases with an increase in age. People develop physical problems as their age increases. The higher the age level, they develop physical problems.

**Gender**

Empirical studies indicate that women generally live longer than men. This may influence the underwriter to charge a lower premium payments for women for a given age level as their counterparts, men.

**Current Physical Condition**

This refers to the proposed insured’s current physical and health condition regarding pulse rate, heart condition, blood pressure, lungs, nervous system, body build, height weight, etc…

**Personal Medical History**

The insured’s past medical history is examined to check for any previous illness that may possibly reoccur in the future. From personal health history of the insured the underwriter wants to know whether the proposed insured had gone major medical treatments in the past.

**Family Medical History**

Here, the medical history for the insured family is examined to discover any possible hereditary diseases or deficiencies.

**Occupation**

Occupation is given as much equal importance as that of age in life insurance underwriting. Occupation can affect the insured’s chance of suffering accidents of premature death. For example a coal miner is much more exposed to risk of premature death or illness than a manager or an accountant.

**Insurable Interest**

There should be an insurable interest to be protected by purchasing life insurance policy. Absence of insurable interest could reflect the presence of wagering in the contract.  The underwriter must make sure that there is an insurable interest in applying for life insurance coverage. This involves identifying any relationship between the proposed insured and named beneficiary.

**Moral Hazard**

Moral Hazard is defined “…as the like hood that the proposed insured is making a deliberate attempt to conceal or misrepresent information that might result in an unfavorable underwriting decision”

**Financial Position**

The proposed insured’s financial position or his level of income has become an important factor to consider in life insurance underwriting. The proposed insured’s financial position is examined to check the existence of speculation and lack of insurable interest. Particularly, close examination is to be made when the amount of coverage is appreciably large.

**Habits**

Habits such as drug or alcohol consumption and smoking could lead to accidents by retarding a person’s judgment, reducing flexibility and damaging his reflex system.

**Avocation**

Avocation is an activity that the insured undertakes outside his ordinary occupation during his spare time. It includes certain hobbies like sport activities, gardening, etc…

**SOURCES OF INFORMATION FOR UNDERWRITING**

The assessment and evaluation of the risk is based on the information collected by the underwriter. Pertinent information needed for underwriting is obtained from the following sources:

* + Proposal Form
  + Medical Report
  + Attending Physicians Statement
  + Agent’s/ Salesman’s Report
  + Questionnaires and Interview
  + Underwriting Manuals
  + Inspection Report

**Proposal Form**

This form represents the basis of the contract between the proposed insured and the insurer; it is to be completed by the proposed insured. Thus, the Proposal Form provides the underwriter with some facts needed in assessing the risk and establishing the appropriate premium charge. The proposed insured required to disclose all material facts. These are facts which the insurer regards as likely to influence the assessment and acceptance of the proposal for life insurances.

**Medical Report**

Life insurance underwriter would have to possess some degree of medical knowledge. Information on the medical aspect of the proposed insured is utmost necessary and mandatory when some life insurance policies are originally issued. The Medical Report in this circumstance is a basic source of information regarding the health condition of the proposed insured.

**Attending Physician’s Statement**

In some circumstances, the proposed insured may have private physician for medical consultation and diagnosis. The attending physician might have treated the proposed insured in the past or is currently treating him/her. The underwriter would then request the physician for information on some factors that may affect insurability.

**Agent’s /salesman’s Report**

The underwriter may also collect some relevant information from an insurance agent/salesman.

**Questionnaires and interview**

Some specific information is obtained by designing questionnaires. These questionnaires are designed to elicit information on certain aspects of the proposed insured and to generate factual information regarding the nature of activities avocation, aviation, sport and occupation of the proposed insured.

**TYPES OF LIFE INSURANCE**

Life insurance policies can be classified as either term insurance or cash value life insurance. Term insurance provides temporary protection, while cash value life insurance has a savings component and builds cash values.

1. **Term Insurance**

First, the period of protection is temporary, such as 1, 5, 10, or 20 years. Unless the policy is renewed, the protection expires at the end of the period.

Most term insurance policies are renewable, which means that the policy can be renewed for additional periods without evidence of insurability.

Most term insurance policies are also convertible, which means the term policy can be exchanged for a cash value policy without evidence of insurability.

Finally, term insurance policies have no cash value or savings element. Although some long term policies develop a small reserve, it is used up by the contract expiration date.

2. **Whole Life Insurance**

In contrast to term insurance, which provides short term protection, Whole life insurance is a cash value policy that provides lifetime protection. There are two types of whole life insurance:

- Ordinary life insurance

            - Limited payment life insurance

**Ordinary Life Insurance**: Ordinary Life insurance (also called straight life and continuous premium whole life) provides lifetime protection to age 100, and the death claim is a certainty. If the insured is still alive at age 100, the face amount of insurance is paid to the policy owner at that time.

In addition, premiums do not increase from year to year but remain level throughout the premium paying period.

Ordinary life insurance also has an investment or saving element called a cash surrender value. The cash values are due to the overpayment of insurance premiums during the early years. For example, in many ordinary life policies, a $100,000 policy issued at age 20 would have at least $50,000 of cash value at age 65.

Finally, ordinary life insurance contains cash surrender or non forfeiture options (if participating), and settlement options that can be used to meet a wide variety of financial needs and objectives.

**Limited payment life insurance**: A limited payment policy is another type of traditional whole life insurance. The insurance is permanent, and the insured has lifetime protection. The premiums are level, but they are paid only for a certain period. For example, Shannon, age 35, may purchase a 20 year limited payment policy in the amount of $25,000. After 20 years, the policy is completely paid up, and no additional premiums are required even though the coverage remains in force.

3. **Endowment Insurance**

Endowment insurance is another traditional form of life insurance. An endowment policy pays the face amount of insurance if the insured dies within a specified period, if the insured survives to the end of the endowment period; the face amount is paid to the policy owner at that time. For example, if Ato kebede, age 35, purchased a 20 year endowment policy and died any time within the 20 year period, the face amount would be paid to his beneficiary. If he survives to the end of the period, the face amount is paid to him.

**Types of Health Insurance:**

There are two types of insurance in the generic term health insurance:

1. Disability Income Insurance and

2. Medical Expense Insurance

**Disability Income Insurance**

Disability income insurance is form of heal the insurance that provides periodic payment when the insured is unable to work as a result of illness or injury. It may pay benefits only in the event of sickness or only in the event of accidental bodily injury or it may cover both contingencies in one contract. Benefit eligibility presumes a loss of income, but in practice this is usually defined as the inability to pursue an occupation. The fact that the insured’s employer may continue his or her wages does not reduce the insurance benefit.

The disability must be one that prevents the insured from carrying on the usual occupation. Most polic8ies continue payment of the benefits for only a specified maximum number of years, but lifetime benefits are available on some contracts. However, under all loss of income policies, the benefits are terminated as soon as the disability ends.

Certain types of accidents are excluded, for example, losses caused by war, suicide and intentionally inflicted injuries, and injuries while in military service during wartime.

**Medical Expense Insurance**

Medical expense insurance provides for the payment of the cost of medical care that results from sickness and injury. Its benefits help meet the expenses of physicians, hospital nursing the related services, as well as medications and supplies. Benefits may be in the form of reimbursement of actual expenses, up to a limit, cash payments or the direct provision of services. The medical expense may be paid directly to the provider of the services or the insured.

Medical expense insurance is divided into four major classes:

**1**. **Hospitalization Expense Contract**

**2. Surgical Expense Contract**

**3. Major medical Expense Contract**

**Hospitalization Expense Contract**: The hospitalization contract is intended to indemnify the insured for necessary hospitalization expense, including room and board in the hospital, laboratory fees, nursing care, use of operating room, and certain medicines and supplies.

Hospitalization expense is usually written for a flat daily amount for a specified number of days such 30, 120, or 365. The contract provides that costs up to the maximum benefit per day (say 50 birr, 60 birr, 70 birr etc.,) will be paid for the number of day specified, while the insured or an eligible dependent is in the hospital.

The agreement may set birr allowance for the different items or may be on a service basis. Typical contracts offered by insurance companies, for example may state that he insured will be indemnified up to X birr per day for necessary hospitalization.

**Exclusions under hospitalization contracts:**

Like all insurance policies, hospitalization contracts offered by insures are subject to exclusions. The following exclusions are typical of hospitalization contracts:

* Expenses resulting from war or any act of war.
* Expenses resulting from self-inflicted injuries.
* Expenses incurred form purely cosmetic purposes.
* Expenses incurred by individuals on an outpatient basis.
* Services received in any government hospital not making a charge for such services.

**Surgical Contracts**:

The surgical contract provides allowances for different surgical procedures performed by duly licensed physicians. In general, a schedule of operations is P set forth together with the maximum allowance for each operation. It reimburses the policyholder according to a schedule that lists the amounts the policy will pay for a variety of operations.

**Major Medical Contract:**

The major medical expense insurance provides protection against the very serious or long illness or injury. The major medical policy is not appropriate for the large medical expenses that would be financially unaffordable for the individual.