

# Large Capacity Case Underwriting

## UNDERWRITING INSIGHTS

MAY, 2022

The life insurance industry has experienced rapid underwriting changes over the past several years. Carriers are committed to developing alternative underwriting tools designed to deliver policies quicker and easier to a demanding consumer. Electronic applications and Accelerated Underwriting programs are now the required paths for many applicants.

While this new environment has helped increase sales, there continues to be a need to service the “older, richer, sicker” clients. These cases involve older ages, larger face amounts, and the need for underwriting expertise to successfully navigate the underwriting process.

As we slowly transition back to “normal” underwriting, I am pleased to note that reinsurance capacity has started to loosen up for applicants under the age of 70 who are relatively healthy. This is good news for the large case market.

Navigating the Life Insurance market for large amounts of coverage takes careful planning. When presented with a high net worth client seeking substantial Life insurance, it is important to know how to position the case effectively to obtain the maximum capacity needed at a competitive rate.

**Capacity** is the amount of insurance available in the life insurance industry for a particular risk. This amount is impacted by several factors such as the plan of insurance, age, and health of the proposed insured as well as the amount of coverage they already have in force and the amount they will currently be seeking.

**Jumbo limits** refer to the total insurance in force and applied for with all insurers on any one life that can be considered without facultative insurance. A reinsurer is not required to automatically accept a risk that exceeds its jumbo limit. This limit is in place to help the reinsurance market manage their mortality risk and avoid becoming over-exposed to any one individual life. Today the Jumbo limit is widely recognized as \$65,000,000 in the U.S. life insurance market.

Life insurance carriers have established limits to how much risk they are willing to consider without utilizing the support of their reinsurance partners. This is commonly referred to as their **internal retention**. This amount varies among carriers and is again determined by the product, age of the insured, and risk class. The use of internal retention is routinely used for clients who present with in force and applied for coverage in excess of \$65,000,000. Once Jumbo limits are exceeded, the carrier cannot offer more than their internal retention without asking for reinsurance support.

Insurance carriers are sometimes willing to consider a risk for more than their internal retention through their Auto-Bind process. This assumes the amounts do not exceed Jumbo limits. A carrier's **Auto-Bind limit** is established through reinsurance negotiations and allows the carrier to automatically bind a risk without reinsurance review. This amount varies by product, age, risk class, and current inforce coverage. The use of reinsurance allows Life insurers to increase the maximum amount of coverage they can offer on a risk.

**Facultative** reinsurance is done more on a case-by-case basis. This step is usually taken after all internal retention and Auto-Bind efforts have been maximized and the total line of coverage has exceeded the Jumbo limit. The difference between Auto-Bind and Facultative reinsurance is that Facultative reinsurance requires the underwriting file to be sent for review. The reinsurer will now control the risk assessment and will determine the amount of insurance they are willing to consider and at what rate class. The primary carrier must abide by the reinsurance underwriting decision at that point.

### Important steps for preparing your large-capacity case

1. Identify all in force, applied for, lapsed, sold, and financed policies.  
It is important to list carrier, product, amount, and issue date.  
Accurate information will assist in determining the first stage of planning.
2. Identify objectives for new coverage (Amount and product).
3. Determine underwriting risk class - The use of a trial application is highly recommended for capacity cases.
4. Consider possible Age/Amount requirements for carriers when coordinating capacity needs. The goal is always to obtain as much coverage as possible with the fewest requirements and intrusions to your client!
5. **Provide a cover letter to include capacity considerations, underwriting factors, and financial justification**
6. In some scenarios, we will contact carriers to identify if any facultative reinsurance capacity is available. In this case, it is very important to be transparent with the carrier or carriers we engage.

Once all the facts are gathered and we have an accurate risk profile, we will work with you to identify the best approach to meet your client's needs. We will identify a "lead" carrier and work carefully with the carriers selected to secure the maximum capacity available.

Gallagher has built a strong reputation in the large case underwriting space. We have the knowledge and expertise needed to successfully execute the placement of large amounts of life insurance for your high net worth clients. Please contact us to discuss your next large capacity case!

GBS Insurance and Financial Services, Inc. does not provide investment, tax, or legal. The information in these materials may change at any time and without advice. The information presented here is not specific to any individual's personal circumstances. To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances. These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable -- we cannot ensure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.