



# **Guide to financial underwriting and large cases**

## Introduction

The basic aim of financial underwriting is to make sure the sum assured, income benefit, and total level of cover each customer has is appropriate for them. It establishes insurable interest exists by identifying the reason for cover, helping us to avoid early lapses, guard against anti-selection, and prevent fraudulent claims and your client from being over-insured.

This guide details the different reasons for cover and explains the underwriting considerations for each of them including any maximum levels of cover and information required.

Financial underwriting involves two stages:

- The first stage involves you, a financial adviser, as you will assess the suitability of product types to best match your client's needs and choose the appropriate level of benefit and/or sum assured.
- The second stage involves an underwriter, who will assess larger cases that reach Zurich's financial underwriting limits. However, the company reserves the right to request additional financial information on individual cases, if needed.

For further guidance before submitting an application please see details about our Large Case Service.

- Personal protection 
- Business protection 
- Evidence requirements 
- Independent evidence 
- Income Protection Plan 
- Large Case Service 
- Here to help you all the way 

## Personal protection

### Personal and family protection

Your clients can, within reason, choose any level of cover. However, the amount of cover should always be based on the individual's need(s) taking into account their current income and liabilities. It should be for a sufficient level of cover for now and can include appropriate flexibility for future needs. Affordability will be a consideration and existing plans should always be taken into account.

We usually allow cover up to the following maximum sums assured:

Age(s)	Multiples of income	
	Life cover	Critical illness
Up to 39	30x	10x
40 – 49	20x	10x
50 +	15x	10x

### Notes:

- These maximum amounts are based on the total level of cover your client has including any death-in-service benefits and cover held anywhere else in the market.
- For very high earners a maximum level of cover may operate.
- Cover for your client's primary residential mortgage and/or cover for a potential inheritance tax liability will be allowed in addition to cover for income.
- Cover for a joint mortgage is normally submitted on a joint life basis. If written as two single life plans then the excess cover i.e. the amount over their 50% share of the liability, will be assessed using the multiples of income formula to determine whether the total level of cover on each life is acceptable. For example, a couple have a mortgage for £1,500,000; if they choose to take out two single life plans for £1,500,000 then the remaining £750,000 will be assessed depending on their income.

## **Inheritance tax liability (IHT)**

The level of cover should be equal to your client's potential inheritance tax liability after all appropriate allowances and reliefs have been taken into account.

Examples of the allowances or reliefs that can be used to reduce the level of tax to be paid include:

- business property.
- agricultural property.
- qualifying shareholdings in unquoted companies.
- gifts to charity.
- gifts to political parties.

Please see <http://www.hmrc.gov.uk/inheritancetax/> for the latest information on tax rates and allowances.

## **Buy-to-let property cover**

Whilst there are no problems in offering life cover for 'buy to let' loans or mortgages, the need for critical illness cover may not be as clear. In the event of a property owner suffering from one of the specified critical illnesses, as their tenant(s) are likely to still be renting the property and paying rent, the only loss of income may be due to the need to employ someone

to help administer and maintain the buy-to-let properties owned by your client.

As there may not be a financial justification for the critical illness cover, we give individual consideration to each application for these purposes.

## **Housepersons and students**

We accept applications for life and critical illness cover from housepersons, even when there is no loss of income on death or disability, as we assume we are covering the cost of employing staff to perform general household duties and childcare.

Life cover is usually restricted to £1,000,000 and critical illness to £500,000. Amounts over these levels will require a financial questionnaire to be completed and will be subject to individual consideration.

We also accept life and critical illness applications from students, even when there is no loss of income on death or disability, as we assume there is a need for some cover as they are likely to have student loans. However, we usually restrict cover to £150,000 until your client is established in a full-time occupation.

## Business protection

### Keyperson protection

The cover required for keyperson protection should be based on the estimated amount needed to replace lost profits until profitability is restored to the required level, and to meet any additional costs such as recruitment and training expenses.

The Business Protection Adviser Tool can help you determine the appropriate level of cover for your client.

Keyperson cover is usually calculated using one of these methods:

#### Actual impact method

This method represents a detailed but accurate approach to quantifying the expected financial loss on the death or critical illness of a keyperson. This method is based on the loss of revenue (turnover) *less* any savings (e.g. the salary and/or profit share of the keyperson), *less* any payments for a replacement over the period of expected loss *plus* any 'one off' costs.

The Business Protection Adviser Tool provides further information on using this method.

#### Multiple of salary

The second method, most often used for an employee, is based on a multiple of the keyperson's salary, including the value of any benefits in kind.

- Up to 7 x the total remuneration package can be considered for life cover.
- For critical illness cover up to 5 x the total remuneration package can be considered.

#### Multiple of profits

The third method is a multiple of profits, based on the loss of profits caused by the keyperson's absence.

We will usually allow the following maximum multiples:

- 5 x net profit or 2 x gross profit for life cover.
- 3 x net profit for critical illness cover.

The net profit figure used is usually the pre-tax amount.

## Proportion of payroll

Using this method, the keyperson's contribution to turnover is measured. Their salary is *divided* by the total payroll, *multiplied* by turnover, *multiplied* by the estimated years for the business to recover.

For example:

Salary £100,000 x Turnover £20m x 2yrs recovery = £2m

Total payroll £2m

This method may not be appropriate where a shareholding director takes a low salary, or is remunerated largely by dividends. It will definitely be inappropriate for a partner.

## Share purchase/partnership protection

The sum assured for life or critical illness cover should be the current value of the shares or the specified value in the agreement.

Ways in which a company can be valued:

### Price Earnings Ratio (PER)

The PER for a company is the share price divided by the earnings per share.

The value of the company is then calculated by multiplying the net profit by the PER.

You can find a list of industry PER's in the Financial Times newspaper or online – you will need to identify and select the relevant and appropriate sector from the listed PER's to calculate the appropriate value.

### Net Asset Value (NAV)

The NAV is a valuation of the company's assets that includes the value of the building(s) and the stock that the company owns *less* any liabilities that the company has.

Usually a valuation of a company will be done using both the PER and NAV methods as a reasonably accurate value can be obtained.

### Average Net Profit

The Average Net Profit for the last three years is *multiplied by* seven and then by the percentage shareholding of the applicant.

## Evidence requirements

The table below shows the financial evidence we need for different levels and types of protection cover.

When using this table you must remember that we will take into account existing cover with us.

The Financial Questionnaire is the main source of financial evidence and includes information about your client's existing cover, number of dependants, salary and any liabilities.

### Notes:

The applicant must complete the Financial Questionnaire – we do not require this to be countersigned by any third party.

For business protection the underwriting requirements are based on the level of cover required for each life assured (not the total cover for the business).

### For example:

If four directors require life cover of £800,000 each, subject to no other cover being held or applied for on each life, no financial evidence would be required even though the total cover in respect of the business is for £3,200,000.

	Financial Questionnaire	Financial Questionnaire and independent evidence
Life cover (single life or joint life first death)	£2,000,001 to £3,500,000	£3,500,001 and over
Joint life second death	£2,000,001 to £5,000,000	£5,000,001 and over
Critical illness plans	£800,001 to £1,500,000	£1,500,001 and over

All applications from companies for business protection when the proposed level of cover for any one individual exceeds £3,500,000 (life cover) or £1,500,000 (critical illness cover) must be accompanied by audited accounts covering the last three years.

## **Independent evidence**

If we need independent corroborative evidence, the purpose of the cover will determine what additional financial evidence we will require. We have listed below the types of independent evidence that we need for each scenario.

### **Family protection**

Evidence of income from employer or accountant e.g. P60's.

### **Inheritance tax**

Accountant's or solicitor's letter to confirm the value of the estate on which IHT liability has been calculated.

## **Loan or mortgage cover (including personal residential or business loans)**

Offer letter or loan/mortgage agreement. If a business loan – audited accounts covering a period of the last three years.

### **Keyperson cover**

Audited accounts covering a period of the last three years. Proof of income from auditors or accountants to illustrate the need for the cover.

### **Partnership or shareholder protection assurance**

Audited accounts covering a period of the last three years. Sight of the partnership or share purchase agreement.

## Income Protection Plan

### Personal cover

The maximum income benefit allowed is 60% of pre-disability earnings up to £45,000, plus 33.33% of earnings over £45,000. Overall maximum £100,000 per year.

For your employed clients, 'earnings' means their gross salary excluding benefits in kind. For your self-employed clients, 'earnings' means their Net Relevant Earnings.

When your client is in claim the 'maximum benefit rule' applies and we make deductions from the amount paid to them for:

- any income from any other disability insurance
- any pension income being paid through early retirement
- any income earned by the claimant
- the single person's Employment Support Allowance.

Although the 'maximum benefit rule', in effect, comes into operation when a claim is made, it is important that the life assured ensures their likely future benefits are realistic given their current income.

### Covering dividend income

We will not consider using dividend income for income protection.

Instead, for directors of an incorporated company we will use PAYE salary plus their share of the company profit. This is a more favourable approach as there will be instances where dividends may not yet have been declared.

## Keyperson cover

A maximum benefit of twice the total remuneration package (remuneration includes P11D benefits, bonuses and pension contributions). Overall maximum of £200,000 per year.

## Criteria for keyperson IPP

If your client fits the following criteria they can apply for a keyperson version of the plan:

- The life assured must be a keyperson to the business.
- The life assured must be less than a 50% shareholder.
- The company must not be making a loss.
- There should be at least seven employees other than the directors.
- The company should have been trading for at least three years.

### Income Protection Plan

### Financial Questionnaire

### Financial Questionnaire and independent evidence

Personal cover

£30,001 to £50,000

£50,001 and over

Keyperson cover

All cases

All cases

## Notes:

The applicant must complete the appropriate Financial Questionnaire.

## Independent evidence:

P60, Payslip, P11D statement, Tax Assessment, Company Accounts.

## Large Case Service

Our specialised large case service is available when a client needs life or critical illness protection of £350,000 or more, or income protection of £50,000 (or more) per year.

- We have a 48-hour turnaround.
- A pre-application enquiry helpline (01793 505754) provides you with direct contact to experienced underwriters who can give you guidance prior to submitting the application.
- You can contact our underwriters directly by phone, fax (01793 488023) or email.
- We will look at every case positively and suggest ways to get your client on risk quickly and efficiently.
- We'll arrange own-doctor medicals where possible.
- We'll use a travelling or independent doctor to perform the medical where required.

- We'll discuss cases with you where we offer non-standard terms which will help you when you discuss the terms with your client and can provide details of the cost of alternatives if you need this.

In addition to this for Large Case protection cases of £1million or more, or where the monthly premium is £250 or more, we provide:

- a 24-hour turnaround
- a pre-planning service, allowing us to tailor our requirements to the individual case. We can often organise medicals and additional tests before we've received the application form
- an individual case management service.

## **Put us to the test**

If you'd like to find out more about the Large Case Underwriting Service, please speak to your Zurich Consultant.

Alternatively, you can use the freephone number 0500 546 546, and ask for the Large Case Underwriting team or email us at [largecaseunderwriting@zurich.co.uk](mailto:largecaseunderwriting@zurich.co.uk)

## Here to help you all the way

### **Practical adviser tools**

Our IHT and Business Protection Adviser tools can give you practical support on larger, more technical cases. They can help you to take advantage of the potential in the IHT and business protection markets by guiding you through the process and providing an audit trail of the decisions made along the way.

Our teams can also support you with providing advice and guidance on the large case processes for mortgage and family protection.

### **Additional support**

#### [Medical Condition Guide \(PW120781\)](#)

A pocket booklet explaining the most common medical disclosures we're asked about – includes an explanation of each disorder, a guide to the evidence that we may request and a suggested underwriting decision.

#### [Non-medical limits \(PW126919\)](#)

This leaflet details the automatic evidence we will need depending on the age of your client and the type and level of cover they have requested.

#### [Here to help at every step \(PW127634\)](#)

This brochure provides a step by step guide to what happens from when your client applies for cover to when their plan starts. It includes details of the kinds of information we may ask for, a short summary of how the claims process works and what your client can expect from us whilst they have their plan.

To find out more about the adviser tools and literature available to you, please call your Zurich Consultant on 0500 546 546.



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