

FINANCIAL UNDERWRITING

While accepting proposal proposals care should be taken to see that the total risk cover should have a relation to the income level of the proponent. As insurance is mainly meant to meet unexpected loss of income due to the death of the life assured, the total amount payable upon death should be such that should only replace the financial loss and nothing more. In other words, death of the life assured should not give any additional financial advantage to the assured/ legal heirs as otherwise the possibility of adverse selection against the insurer may operate.

1. MORAL HAZARD REPORT

The importance of Moral Hazard Report need not be overemphasized. These reports are expected to be written after collecting factual information from the life proposed and also from documents supporting the financial status of the proponent and making independent enquiries. These reports must reflect factual information, keeping in mind that the underwriter relies on this for financial underwriting.

Often it is observed that certain document such as advance tax receipt, wealth tax returns, copies of books of accounts etc. are submitted to the office, in support of the financial status of the proposer. As insurance is to replace loss of income upon death, the Moral Hazard report should reflect the regular income of the proponent and the documents submitted should confirm this aspect. Any document, which is, produced alongwith Moral hazard Report showing income which is of windfall in natures and which is not part of regular income may have to e viewed differently. In addition, any adverse features regarding health, habits etc should also be brought out in the moral hazard report.

Instructions for submitting Moral Hazard Report (Refer Circular No. Actl./1788/4 dated 16.02.2002, 1865/4 dated 20th March 2003)

In the case of large sums proposed Moral Hazard Report in form No. 3251 has to be obtained from appropriate authorities as shown below. However, agents who are authorized to submit Moral Hazard Report need not submit any additional report in form No. 3251 whenever report in form No. 380 (revised) has been submitted by them.

MHR Limits for Agents and Development Officers / official			Limits upto (Rs.)
A	i)	Authorised agents working under Development Officer or as Direct Agents or Career Agents satisfying the minimum business performance for each of the previous three financial years as under: No. of Lives : 15 Net Sum Assured : Rs. 6 lacs	5 lacs
	ii)	Members of Branch Managers Club and Distinguished Agents Club (Whether Career agents or direct agents or agents working under a Development Officer).	10 lacs
B		Carrer agents or direct agents or agents working under Development Officer, Who are member of –	

	i)	Divisional Managers Club	20 lacs
	ii)	Zonal Manger's club	30 lacs
	iii)	Chairman's club	50 lacs
	iv)	MDRT Qualified Agents	50 lacs
C	Development Officers		1 Crore
D	Assistant Branch Manager (Sales), Branch Manager (sales), Asst. Branch Managers – in – charge of Branch		2 crore
E	Branch Managers/ Senior Branch Managers-in-charge of Branch		5 crore
F	Managers (Sales)		10 crore
G	Marketing Manager		Above 10 crores

Note:

- a. The limits shown above for the Sum Under Consideration (SUC). i.e. Actual Sum Assured under all the policies/ proposals during last two complete years on the life to be assured duly rated up depending upon the plan of assurance as shown under Note (ix) of Financial Power appearing under item (2) of "General underwriting instructions".
- b. Central Underwriting Section may call for Special MHRs from other officials, if necessary. Depending on the merits of the case.
- c. The authority to write MHR by agents shall continue so long as they continue to be a respective Club Member including MDRT qualifiers.
- d. MDRT qualified agents can give MHR for sum under consideration upon Rs. 50 lakhs subject to

He/she should have been qualified for MDRT on the basis of commission only; and

He/she should be our MDRT agent on the basis of commission for a period of at least three years, continuously, prior to the date of eligibility.
- e. MHR by a Development Officer would be necessary under all proposals submitted under non-medical (General) Scheme. (If agency is direct. MHR should be completed by ABM(S)). However, ACR by DM's club agents, Branch Manager's club agents, authorized agents and Distinguished Agents Club Members can be accepted without insisting upon MHR by Development Officers except when the life to be assured belongs to female category III and the age proof submitted is non-standard. (ref. Circular No. Actl/1672/4 dated 15.1.1999).
- f. If an agent is competent to give MHR under a proposal, the Agent's Confidential Report (ACR) itself can be treated as MHR. If as per the prescribed limits, the agent cannot give the MHR, the same has to be given independently by the Development Officer. For sum under consideration in excess of Rs. 25 lakhs, the MHR by Agents/ Developments Officer should be in Form No. 3251 with annexure A & B

- g. Where a proposal requires an MHR by an authority above the Development Officer, the Development Officer should also submit his / her separate and independent MHR.
- h. Any class I or Class II officer, who becomes an agent on retirement may be permitted to give MHR, up to the limit prescribed for Divisional Manager Club Member Agent, (i.e. upto a limit of Rs. 20,00,000/-), at the sole discretion of the Sr/Divisional Manager (in-charge) of Divisional office after taking into account his/her past performance and experience in New Business and marketing Departments. Once such an agent qualifies as a Zonal Manager's or Chairman's Club members or MDRT qualifier, his/her limit can be enhanced to the levels appropriate to such club memberships.
- i. No. Moral hazard report will ordinarily be necessary for a proposal upto a sum of Rs. 1,00,000/- subject to note in item (e) and (f) above.
- j. Agents seeking fresh authorisation as shown above, will be allowed to give MHR by Manager (Sales) after a proper interview on the written recommendation of the Development officer under whose organisation they are working and the Officer-in-charge of the Branch Office.
- k. In respect of Proposal upto S.A. Rs. 2 lacs, concept of SUC should not be made applicable for the purpose of MHR only.
- l. Where proposer is a businessman and the Sum proposed is above Rs. 1 crore, the special MHR in F. No. 3251 (Spl) should give the following additional information:
 - a. Location of the business office/ shop / factory.
 - b. Reputation of the proposer and his business
 - c. Source of income
 - d. Number of employees
 - e. Turnover of the business for previous 3 years