

Life insurance financial underwriting guidelines

Financial underwriting guidelines have traditionally focused on the face amount versus the premium affordability. While the table below addresses the face amount, it's not the only factor we'll take into consideration.

Personal insurance

| Purpose | Underwriting Guideline | Requirements & Notes |
|---------------------------|--|--|
| Income replacement | <p>Maximum amount of personal insurance available, based on the proposed insured's earned income, would be the higher of:</p> <ul style="list-style-type: none"> • Age 16-30: \$500,000 or 30x earned income • Age 31-40: \$500,000 or 25x earned income • Age 41-50: \$500,000 or 20x earned income • Age 51-60: \$250,000 or 15x earned income • Age 61-69: \$250,000 or 10x earned income • Age 70 and up: \$100,000 or higher amounts will be considered on an individual basis. | <p>Requirements:</p> <ul style="list-style-type: none"> • Third-party verification of finances when the total amount of insurance applied for is over \$10 million. Financial Questionnaire (form 96) may be replaced by an Inspection Report. <p>Notes:</p> <ul style="list-style-type: none"> • Sources of earned income include salary, commissions and bonuses. • Earned income generally will not include rental income, interest, pension or investment income. |
| Estate preservation | <p>Maximum total amount of coverage we will consider is equal to the insured's anticipated estate taxes.</p> | <p>Requirements:</p> <ul style="list-style-type: none"> • Third-party verification of finances when the total amount of insurance applied for is over \$10 million. Financial Questionnaire (form 96) may be replaced by an Inspection Report. |
| Non-income earning spouse | <p>Maximum amount of personal insurance available for non-income earning spouses would be the higher of:</p> <ul style="list-style-type: none"> • Age 16-50: \$500,000 or ½ of the amount available on income earning spouse. • Age 51-69: \$250,000 or ½ of the amount available on income earning spouse. • Age 70 and up: \$100,000. Higher amounts will be considered on an individual basis. | <p>Notes:</p> <ul style="list-style-type: none"> • The income earning spouse should have at least the same amount of coverage (unless uninsurable). • Living outside of Canada doesn't mean the spouse is uninsurable. |

Personal insurance continued

| Purpose | Underwriting Guideline | Requirements & Notes |
|---|---|--|
| <p>Unemployed</p> | <p>Can be considered for up to \$250,000, including the amount of in force coverage.</p> <p>Higher amounts may be considered on an individual basis, depending on the reason and duration of unemployment, amount and source of unearned income, expected return to work date, job prospects, expected income and net worth.</p> | <p>Requirements:</p> <ul style="list-style-type: none"> For amounts over \$250,000, include a cover letter with the application. |
| <p>Children</p> <p>If parent is applicant, the amount we will consider is based on amount on parents.</p> <p>If grandparent is applicant, the amount we will consider is based on amount on grandparents or parents.</p> | <p>Can be considered for up to \$250,000, regardless of the amount of coverage on their parents (or grandparents if grandparent is applicant).</p> <p>For amounts over \$250,000 and up to \$1,000,000 both parents/grandparents should have at least as much personal insurance coverage as the amount being proposed on the children (unless uninsurable).</p> <ul style="list-style-type: none"> If both parents are insured, the child should not have more coverage than either parent. If only one parent is insured, we will consider up to ½ the amount on the parent. <p>For amounts greater than \$1,000,000 we will consider only the net worth of the family.</p> <ul style="list-style-type: none"> We may consider each child for a proportionate share of the family's net worth, providing each parent has at least twice as much insurance as each of their children. Amounts over \$1,000,000 on the grandchildren will be considered on an individual basis. | <p>Notes:</p> <ul style="list-style-type: none"> In general, children should not have more coverage than their parents. Most children do not need a significant amount of insurance because they don't have estates that are subject to taxation, debts to repay or income to replace. Sun Par is an insurance product and receives its preferential tax treatment because it is not an investment product. The amount requested must be supported by an insurance need. If protecting future insurability is a goal the Client can apply for GIB, Plus Premium or choose the PUA dividend option. Living outside of Canada doesn't mean the parent is uninsurable. Unless uninsurable, all siblings (or grandchildren if grandparent is applicant) should be equally insured. If amounts are different, include a cover letter with an explanation. For amounts over \$1,000,000 when grandparent is applicant, provide a cover letter including details of the family's net worth, amount of coverage on the grandparents and the amount of coverage on all their children and grandchildren. |
| <p>University or college students and recent graduates</p> | <p>Can be considered for up to \$1,500,000.</p> <p>Individual consideration for amounts over \$1,500,000.</p> | <p>Requirements:</p> <ul style="list-style-type: none"> For amounts over \$1,500,000, include a cover letter with details including: <ul style="list-style-type: none"> Date of graduation and anticipated future earnings. Field of study and whether related to family business. Net worth of the family. |

Personal insurance continued

| Purpose | Underwriting Guideline | Requirements & Notes |
|----------------------|---|---|
| Charitable Donations | <p>Most proposed insureds will be eligible for \$100,000, as long as they have some existing personal insurance coverage.</p> <p>Higher amounts will be considered on an individual basis. Generally, the maximum we will consider, is an amount equivalent to 25% of the proposed insured's net worth, as long as their personal insurance needs are met.</p> | <p>Requirements:</p> <ul style="list-style-type: none"> For amounts over \$100,000, include a cover letter with the name of the charity, details of past cash contributions, motivation for purchasing the insurance coverage on behalf of the charity, any tax implications, and details of the proposed insured's personal insurance needs and current in force coverage. |
| Debt coverage | <p>We will consider an amount equivalent to the borrower's responsibility for the debt.</p> | <p>Requirements:</p> <ul style="list-style-type: none"> Joint first to die is the most appropriate solution when each borrower is covered for the full amount of the loan. |
| Bankruptcy | <p>Employed proposed insureds whose bankruptcies have not been discharged can be considered for amounts up to \$250,000, including the amount of in force coverage.</p> | <p>Once the bankruptcy is discharged, regular financial underwriting guidelines apply.</p> |
| Foreign net worth | <p>There must be a need for a Canadian policy.</p> <p>The maximum amount we will consider based on foreign net worth alone is \$10 million.</p> <p>Net worth is defined as:</p> <ul style="list-style-type: none"> 100% of the Canadian net worth 50% of the verifiable foreign net worth 25% of the non-verifiable foreign net worth. Personal life insurance only; no business insurance. All underwriting requirements must be completed in Canada. Only Canadian net worth will be used to determine the amount of coverage we'll consider on children. | <p>Requirements:</p> <ul style="list-style-type: none"> Fully completed Financial Questionnaire (form 96). Financial Questionnaire may be replaced by an Inspection Report. <p>Financial:</p> <ul style="list-style-type: none"> We require a cover letter that includes all details of foreign net worth, accompanied by verification of foreign assets: <ul style="list-style-type: none"> Foreign assets with a bank or investment firm will be considered with English or French copies of bank or account statements covering the last three months, or Foreign business assets can be considered if English or French financial statements are provided by a well-known international accounting firm on the accounting firm's letterhead, or A copy of the Canadian income tax form which confirms their foreign assets. |

Business Insurance

| Purpose | Underwriting Guideline | Requirements & Notes |
|---|--|---|
| Buy-sell | <p>We will consider each business owner for an amount that is equivalent to their share of the current fair market value of the business.</p> <p>For established businesses, we may also consider additional insurance for growth, at 5% each year for a maximum of 5 years.</p> <p>Unless uninsurable, all owners with more than 10% ownership should be insured for their appropriate share.</p> | <p>Requirements:</p> <ul style="list-style-type: none"> • The names of all owners, the percentage each owns in the business, the fair market value of the business and the amount of insurance in force and applied for on the life of each business owner. • When the total amount of business insurance applied for is over \$10 million (with all insurance companies), we require: <ul style="list-style-type: none"> ▪ the company's last 2 financial statements. ▪ third-party verification of finances. <p>Financial Questionnaire (form 96) may be replaced by a Business Beneficiary Report.</p> |
| Key person | <p>We will consider up to 10x the earned income for any proposed insured who is key to the success of the business.</p> <p>Alternatively, for well established businesses, we may consider an amount of coverage equal to the annual revenue/income generated by a key employee.</p> <p>Unless uninsurable, all key persons of the business should be appropriately insured.</p> | <p>Requirements:</p> <ul style="list-style-type: none"> • When the total amount of business insurance applied for is over \$10 million (with all insurance companies), we require: <ul style="list-style-type: none"> ▪ a cover letter that includes details on why the proposed insured is considered a key person. ▪ third-party verification of finances. <p>Financial Questionnaire (form 96) may be replaced by a Business Beneficiary Report.</p> |
| Creditor protection | <p>We will consider each owner of the business for the full amount of the loan.</p> | <p>Requirements:</p> <ul style="list-style-type: none"> • The amount, terms and purpose of the loan, as well as the name of the lender. • When the total amount of business insurance applied for is over \$10 million (with all insurance companies), we require: <ul style="list-style-type: none"> ▪ the company's last 2 financial statements and bank loan agreement. ▪ third-party verification of finances. <p>Financial Questionnaire (form 96) may be replaced by a Business Beneficiary Report.</p> |
| Corporations insuring family members of a shareholder | <p>If the corporation is entirely owned by one person, we will consider corporately owned insurance on the spouse or children of the shareholder, subject to the suggested maximums in our guidelines for personal insurance.</p> <p>If the corporation has more than one shareholder, we will only consider corporately owned insurance on a spouse or dependent child of a shareholder if the corporation has an insurable interest in their life.</p> | <p>Examples of insurable interest:</p> <ul style="list-style-type: none"> • The insured is actively involved in the business and will take over or inherit the business in the future. • The corporation is partly owned by a family trust and the insured is a beneficiary of the trust. |

Premium affordability

Underwriting Guideline

Financial underwriting rules help us ensure the insurance face amount, product, and premium are reasonable for a Client's financial situation. They help determine if the Client can afford to keep their policy long-term.

When we consider premium affordability, we look at the Client's income and a reasonable amount of coverage they could comfortably afford. We also consider a Client's Canadian net worth as well as verifiable and non-verifiable foreign net worth. This helps build a bigger picture of what's affordable for the Client.

This table shows the maximum amount of income Clients can use for insurance premiums, based on their gross annual income.

| Premium affordability – Income vs Annual | For informational purposes only | |
|--|--------------------------------------|--|
| | Suggested maximum % Income vs annual | Allowable premium \$ |
| \$0-\$50,000 | 10% | \$5,000 |
| \$50,001-\$100,000 | 10%-15% | \$5,000 - \$7,500 \$10,000 - \$15,000 |
| \$100,001-\$250,000 | 15%-20% | \$15,000 - \$20,000 \$37,500 - \$50,000 |
| \$250,001-\$2,000,000 | 20%-30% | \$50,000 - \$75,000 \$400,000 - \$600,000 |
| \$2,000,001+ | Individual consideration | Individual consideration |

This table shows our guidelines for the maximum percentage of net worth we'll accept to fund insurance premiums over a 5-year period. Net worth for premium affordability also includes foreign net worth to assess the face amount.

| Premium affordability – net worth | |
|-----------------------------------|--|
| Net worth | Suggested maximum % of net worth used for premiums |
| \$0 - \$999,999 | 10% |
| \$1M - \$5M | 10%-25% |
| \$5M - \$10M | 25%-35% |
| >\$10M | 35%- 40% |

For applications over \$10 million, we need to assess the risk on the application. The best approach is to provide for E96 and 2 years worth of financial statements. Please include any other supporting documentation and a well-written cover letter. These steps will help us issue the policy faster.

We help. You grow.

