Ethics Practice

This text is designed to provide accurate information in regard to the subject matter covered. The readers of this book understand that the author and CRNTC are not engaged in rendering legal or financial services. You should seek competent tax or legal advice with respect to any and all matters pertaining to the subject covered in this book

This book is updated periodically to reflect changes in laws and regulations.

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In the back of this book is a 25-question examination sheet that is to be completed by students who seek continuing education credits. A grade of 70 percent or higher is required to receive continuing education credits.

You are to place your answers on the answer sheet that is included in back of this text.

Please fax your personal profile and your answer sheet to the following number:

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Ethical Conduct

Many studies have indicated that insurance professionals look to different sources for ethical guidance. Some insurance agents watch and observe the behavior of their managers and colleagues to formulate their own opinions on insurance ethics; others rely on their own personal values. Since many insurance professionals rely on various sources of

guidance, experts believe that it would be wise for insurance managers to modify the atmosphere of the workplace to one of high ethical standards. The professional manager should always strive for consistent ethical behavior on the part of his or her agents (Consistency has always been a major ingredient for success in any business). Very little time is spent on ethical training, but on the other hand, an enormous amount of training hours are spent on selling techniques. If managers would place ethical standards on the same plane as sales, they would send a very positive message to their workforce, clients, and the general public.

Unfair Trade Practices

Rebating

An insurer might be sound financially and yet indulge in practices that are detrimental to the public, such as unfairly discriminating against an insured or engaging in "sharp" claim practices. The commissioner attempts to control such activities. Rebating and twisting are two unfair practices that are specifically forbidden by many insurance codes. Rebating consist of directly or indirectly giving or offering to give any portion of the premium or any other consideration to an insurance buyer as an inducement to purchase an insurance policy.

Twisting

Twisting is the practice of inducing a policyholder to lapse or cancel a policy of one insurer in order to replace it with the policy of another insurer in a way which would be detrimental to the insured.

Misrepresentations

It is illegal for any person to make issue or circulate any statement or estimate that:

- Misrepresents the benefits, advantages, conditions, or terms of any insurance policy

- Misrepresents the dividends or share of surplus to be received on any policy

- Makes a false or misleading statement about the dividends or share of surplus previously paid on similar policies

- Makes a misleading representation or misrepresentation about the financial condition of any insurer, or about the legal reserve system upon which any insurer operates

- Uses any name or title of an insurance policy or class of polices that misrepresents the true nature of the policies.

Defamation

No one may publish, disseminate, or circulate any oral or written statement that is false, maliciously critical of, or derogatory to the financial condition of any insure, and that is calculated to injure any person engaged in the insurance business.

Windowing

Windowing is simply forgery! It is derived from the illegal practice of holding an authentic signature up to a window and tracing over it onto another form. There are several reasons why agents commit this illegal act:

1. The insurance agent misrepresented the insurance product and therefore forged the client's signature on the documents.

2. The insurance agent failed to have all documents singed by the client.
3. The insurance agent was simply lazy and decided to forge the signature instead of returning to the client to get the proper signatures.

Premium Conversion

Here the agent decides to steal the client's premium money and uses it for his own personal use. To give the appearance that the insurer had issued a policy, the agent will make copies of an authentic policy and type his victims' name as being the insured.

Commingling

Commingling is the illegal act of depositing clients' premium money into personal accounts. This is done to benefit from the interest earnings. Insurance agents are usually required to turn over all premium money to their insurance company within a short period of time.

Unlicensed Selling

Here the agent sells insurance contracts without having the proper authorization from insurance regulators. Agents must be properly licensed to sell insurance policies in the jurisdictions in which they do business.

Producers Altering Applications

Altering an insurance application for any reason is illegal and unethical. Applications have been fraudulently altered by insurance agents for many years. Their reasons have been the following:

- Changing the underwriting information so that the customer will qualify for coverage or get a favorable rate
- Adding zeroes to the amount of coverage applied for on the application
- Changing the type of coverage be applied for to earn a larger commission on the sale

The Six Standards of Ethical Conduct

Courage

In order to be ethical, insurance agents must be courageous! To be ethical, insurance agents may find that they often have to stand up to their managers, company, colleagues, customers, and even family members who don't want to risk the economic loss that an ethical decision may cause. It takes courage on the part of the agent to stand up to those people, whose opinions and respect is so often desired. If the agent fails to courageously do the right thing, invariably that decision will come back to haunt him!

Honesty

Honesty is essential to ethical behavior. It simply means telling the truth to everyone who you deal with in business or on a personal bases. For agents, honesty it is necessary in order to create the kind of trust in the agent-client relationship that allows customers to make an affirmative purchasing decision.

Responsibility

Insurance agents must make it a point to be both trustworthy and reliable. Clients often rely on agents to help them to determine what insurance they need or don't need. If the agent acts in an irresponsible way, his actions may cause un-do harm to the client, civil liability to himself and his insurance company.

Integrity

Integrity has the connotation of being incorruptible! An agent who has integrity will do the right thing for his client because the right thing is the right thing to do. Integrity often requires the agent to be courageous when dealing with managers, colleagues, and customers. For example, your manager might notice that you failed to have your client sign all the necessary documents on the insurance application and suggest that you forge the signature. The right thing to do is to refuse, but by doing so might cause your job to be in jeopardy.

Caring

The insurance agent needs to show that he cares able his clients. People usually respond in kind. Agents can show that they care about their clients by making it a practice of adequately insuring client by taking the time to properly evaluate their needs and matching them with the policies that will meet those needs. When the client sees this, they may be more incline to give the agent referrals and repeated business.

The agent’s fiduciary responsibility to the principal

An agent is an individual who has the responsibility to look out for the best interest of the principal. This entails the highest degree of trust and confidence. When an agent under takes employment with an insurer, he will be held to a high degree of trust, fair play, and responsibility while performing his duties.

An agent must always act on behalf of the insurer’s best interest and must put the insurer’s interest ahead of his own. This is the role a fiduciary takes when he enters into a contract with a principal.

The agent, if authorized, can represent the interest of more than one principal. An independent insurance agent or broker can represent the interest of several insurers as long as there is full knowledge and consent of all parties.

An agent must stay within the confines and conditions of his agency contract with the insurer. An agent cannot receive personal financial gain other than what is specified in the agency agreement.

It is the agent’s responsibility to make sure that all questions on the applications are answered truthfully and completely. The agent must use every skill at his or her disposal to make sure that the insurer’s goals are obtained in the most effective and efficient manner possible.

When conducting insurance transactions, the agent must avoid any potential conflict of interest between himself, the insurer or the insured. The agent must represent insurance products and services in a skillful and honest manner to the insured. If the agent misrepresents the insurer or its products and services, the agent would be liable for losses to either the insurer or the insured or both. This is true even if the misrepresentation was not intentional.

Ethically in the insurance industry, it is accepted practice that when the subject of a competing insurer is brought up that it is in the best interest of the industry for the agent to not defame the competing insurer. The agent should stick to the issue at hand and avoid causing any ill feelings towards the other insurance company.

Captive insurance agents

A captive insurance agent is an individual who has an exclusive contract with one or more insurance companies. He is the insurer's fiduciary and therefore must represent the insurer in the highest and most reputable manner possible.

It is unethical for captive agents who represent one or more insurance companies to sell the same or similar policies to potential clients.

The agent has an obligation to disclose to the insurer his or her interest in any similar business or service that he renders regardless of whether he receives compensation. It is then up to the principal to determine whether or not a conflict of interest exists.

Responsibility of principals

The acts of the insurance agent operating within the scope of expressed or apparent authority are viewed as acts of the insurers. The law considers the agent and the insurer as one and the same. Thus, the insurer is legally responsible for the actions of its agents while performing their prescribed duties, even if such agents make fraudulent assertions unknown to or unauthorized by the insurer.

While the insurer may limit the agent's authority and such limitations are binding on the agent, they are not always binding on third parties. Third parties may rely on a "normal" agency relationship. Therefore, "unreasonable" limitations on the agent's authority are not binding on insured's unless effectively communicated to them.

INSURANCE BASICS

Customarily, insurance is written by corporations which are intangible legal creations acting through real people operating under either a principal –agent relationship. Where general or specified authority to make contracts for the corporation is granted, the relationship is one of principal-agent.

For the most part, the marketing of insurance is conducted through representatives of insurers known as "agents." An insurance agent is anyone authorized by an insurer to solicit, create, modify or terminate contracts of insurance between the insurers and the insured. Also involved in the marketing process are insurance brokers. An insurance broker is a person who, for a consideration, solicits and negotiates contracts of insurance for an insured and is the agent of the insured and not the insurer.

Creation of an agency relationship

An agency relationship may be established between principal and agents by mutual assent. This assent usually is given in an express agreement known as an agency contract. Most insurance agency relationships are based on expressed agreements. Mutual assent, however, can be reached after a transaction has occurred by one by party sanctioning the actions of another as those of one's own, creating an agency by ratification.

While an agency relationship between principal and agent usually may be created only with the consent of the principal by agreement or ratification, special circumstances are construed to deny the principal the right to claim that no agency relationship existed. These circumstances established an agency by estoppels. Thus, if the insurer's behavior causes a reasonable person to believe that a particular individual is an agent of the company, a court is likely to hold that a presumption of agency exists.

Agent's powers and authorities

The power of an agent rests primarily on the authority granted in the agency contract. However the power to bind the principal extends beyond the contractual authority specifically granted. Insurance agents have three kinds of authority.

1. The agent has the stipulated or expressed authority bestowed by the terms of the contract with the insurer.

2. The agent has implied authority. The law gives agents that power which the public reasonably may believe them to have.

3. The agent has apparent authority-that authority which the agent has exercised and in which the insurer has acquired by failure to protect.

Warranty, Representation, and Concealment

In insurance, the use of warranties and representation is to protect the insurer from the insured. The basic principal arose under the common-law doctrine that insurance is a contract of utmost good faith. Insurers rely on information furnished by prospective buyers in deciding whether or not to write the insurance and in determining the premium. If the information is false or incomplete the insurer may be able to void the contract on the grounds of warranty violations, misrepresentation, or concealment.

The common-law doctrine of warranty

A warranty in insurance is defined as a stipulation in the policy relating to the nature of risk insured which conditions the insurer's liability. Thus, in a theft insurance contract, if the insured agree to keep the doors locked while the house is unattended, that promise is a warranty. Noncompliance with a warranty may be grounds for the insurer to void the contract. To void the contract, the insurer needs only to prove that a warranty has been violated. Breach of a warranty may void a policy even if the insured gave information to the best of his knowledge.

The common –law doctrine of representation

Representations are statements made by the applicant to the insurance company in the process of obtaining a policy. Representation may be oral or included in a written application. Oral representations, however, are difficult to prove in a court of law.

State Insurance regulations

Claims and complaints handling

One of the goals of State Regulators is to ensure policyholders are treated fairly and can have confidence that their valid claims will be paid. Complaints from policyholders can arise from all aspects of the placing and servicing of a risk, but most complaints stem from the decision to deny claims or because of inadequacies in the claims handling process.

Principals should ensure that documentation clearly identifies the steps to be taken in the event of a personal lines claim and that in-house procedures facilitate the prompt handling and payment of valid claims. A well-defined claims handling process setting out clear levels of staff responsibility should be in place, supported by a policy of open communication with claimants. It should be emphasized that where authority to settle personal lines claims is delegated to intermediaries, principals still retain overall responsibility and should therefore ensure that the guidance set out is in compliance with State Insurance Laws.

Documentation

The insurance policy is the primary source of information available when a policyholder wishes to file a claim. Accordingly, policies issued to policyholders should clearly state the initial point of contact in the event that there is a claim and make it clear what action the policyholder should take.

Procedures

The principal should ensure there are written procedures in place setting out the process for handling claims from policyholders. These procedures should be designed to ensure that

a. an individual is nominated as having overall responsibility for the claims handling function;

b. an individual's level of authority for claims settlement is based on his knowledge and experience;

c. the person who originally underwrote the risk does not have sole responsibility for handling a claim;

d. each individual dealing with a claim is aware of and understanding the procedures (and their own limits of authority);

e. there is a clear delineation of responsibility and clear reporting lines;

f. all claims are dealt with promptly and appropriate action is taken in line with in-house service standards;

g. claims files are properly documented with a copy of the claim any reports commissioned. A record of relevant telephone conversations/meetings and the action taken, together with details of the final outcome.

h. there is a system for regularly monitoring the effectiveness of the claims handling process; and identifying common causes of complaints;

i. any appropriate remedial action is promptly taken.

Communication with claimant

As the primary source of complaints relates to claims, principals should have in place a policy of keeping policyholders (or their agents) informed of the progress of their claims and provide an explanation of the reason for the outcome of a claim in the event that a claimant's claim is not being met in full. Accordingly, procedures should ensure that:

1. policyholders (or their agents) are kept regularly advised of developments on the progress of the claim and, where appropriate, of the responsibilities of the parties involved,

2. where a claim is denied in whole or in part, the policyholder is given a clear written explanation of the reason.

3. the policyholder (or his agent) receives a clear explanation of how claim payments were calculated (with supporting evidence where appropriate).

Standard Services

The principal should ensure in-house services are included as part of the procedures for the prompt handling of personal lines claims and complaints and that they are kept under review. The service should be realistic, in writing and set out reasonable expectations in respect of such issues as for example:

1. time limits on acknowledging written complaints and other mail including time frames for providing interim updates to complainants and policyholders;

2. time limits on answering and returning calls;

3. responsibilities of others appointed to assist the complaints/claims handling process such as adjusters/repairers;

4. guidance on dealing with complaints against those acting on underwriters' behalf e.g. approved repairers' adjusters' etc;

5. guidance on dealing with complaints that include against unlicensed producers/ agents;

6. guidance on the use of standard letters/explanations of insurance principles;

7. guidance on dealing with claims complaints from third parties:

8. time frames within which payments representing settlement of valid claims will be made to policyholders.

In order to prevent the escalation of a complaint, the complainant must be kept informed of progress in clear and open manner, for example:

1. where it is decided additional medical reports are necessary in order to assess a claimant's disputed demand for continuing benefits under a Personal Accident Policy, that the complainant is told why this is deemed necessary, of the co-operation required and the next steps to be followed,

2. where the policyholder remains dissatisfied, new or outstanding issues raised by the policyholder or points not previously covered should be communicated, relevant insurance principles explained in plain language and any final proposal to conclude matter made.

3. where in-house procedures are exhausted all options available in circumstances where/if the policy allows for this or referral of the complaint to the State Insurance Department, should be outlined. Policyholders should not be coerced into following one course of action in preference to another.

Filing a complaint with the State Insurance Administration

The primary role of each State Insurance Administration is to protect consumers from illegal insurance practices by ensuring that insurance companies and producers that operate in their state act in accordance with State insurance laws.

What the Insurance Administration will do once a complaint has been received from a consumer:

- forward a copy of the complaint to the insurance company, appropriate;

- obtain information or explanations on the consumer's behalf from the insurance company or their representatives. This may involve written and verbal contact with such companies or persons;

- review in detail the information obtained from the company for compliance with statutes, regulations and policy contracts;

- explain the provisions of the consumer's insurance policy, as appropriate;

- suggest to the consumer actions or procedures that he may take which could aid in resolving the insurance problem;

- if it is determined that the actions of an insurance company in violation of a statute, regulation or policy that the Insurance Administration enforces, they will take corrective action against that insurer.

State Insurance Administrations have the authority to make decisions as to disputes between the consumers and insurance companies or their representatives which involve deciding matters as to;

1. Who is negligent or at fault;
2. The facts surrounding the claim

3. The value of a claim or the amount of money owed to the consumer; or

4. Any other factual disagreements between the consumer and
   another party, unless the dispute involves a violation of law.

How to file a complaint

All complaints must be received in writing. Some States allow consumers to file complaints on-line, but most complaints are filed by sending a written letters. If the consumer sends a letter then he must provided the following information to the Insurance Department:

1. name, address and daytime and evening phone number
2. name of the person's insurance company, type of insurance
   (auto, homeowners, fire, etc.), policy number and claim number (if applicable)
3. name of any other insurance company, agent, adjustor, etc. involved in the problem
4. a detailed explanation of the problem or situation
5. copies of any documents that may be important for the investigator to review

Each State Insurance Administration has the authority to regulate all insurance companies, producers, premium finance companies, motor clubs and HMOs that are licensed to conduct business in their state.

Generally, State insurance laws do not apply to insurance contracts (or policies) issued in other states. For example, if a person’s policy was issued in Virginia, then Virginia law and not Maryland law applies to his coverage. In these instances, the person will need to contact the Regulator in that state of assistance.

Regulation of the Insurance Industry

The basic danger of competition in the insurance industry is the possibility that, in their attempt to compete, insurers may underestimate their costs and fail as a result. **The primary purpose of government regulation of insurance companies is to assure the solvency of the insurers.**

Insurance contracts are uncertain promises made by the insurer to the insured. In return for the insured's premiums, the insurance company promises to pay a specified sum in the event the insured suffered a loss that is covered in the policy. Because the insurer's ability to fulfill its promise is based on the financial soundness of the company, the public welfare requires the regulation of insurers.

The complicated nature of most insurance contracts makes them difficult for the insured to understand. Regulators are charged with the responsibility of assuring that the contracts offered by insurers are fair and complete.

History of insurance regulations

Paul vs Virginia

The case of Paul vs Virginia was an important Supreme Court decision concerning the regulation of insurance. Samuel Paul was a native of Virginia who represented New York insurance companies in his state. Paul challenged Virginia's right to regulate insurance by selling insurance policies without obtaining a license from the state of Virginia. The state of Virginia required all insurers that sold insurance policies in its state to post a security deposit. Paul's insurers refused to post a deposit, and therefore the state of Virginia denied both Paul and his insurers an insurance license. In defiance of their actions, Paul continued to sell insurance in Virginia and later arrested and fined $ 50. the case was carried to the United States Supreme Court, where it was finally decided in 1869. **In rendering its decision, the Supreme Court ruled that insurance was not interstate commerce:**

Issuing a policy of insurance is not a transaction of commerce. The policies are simply contracts of indemnity against loss by fire entered into between the corporations and the insured for a consideration paid by the latter. These contracts are not articles of commerce in any proper meaning of the word. They are not commodities to be shipped or forwarded from one state to another and then put up for sale. They are like other personal contracts between parties which are completed by their signature and the transfer of considerations. Such contracts are not interstate transactions, though the parties may be domiciled in different states. The policies do not take effect – are not executed contracts – until delivered by the agent in Virginia. They do not constitute a part of the commerce between the states any more than a contract for the purchase and sale of goods in Virginia by a citizen of New York, whilst in Virginia, would constitute a portion of such commerce.

The decision of the United States Supreme Court that insurance was not interstate commerce, and, therefore, was not subject to regulation by the federal government stood for 75 years.

The South-Eastern Underwriters Association Case

After a period of 75 years, another test of the authority of the federal government to regulate insurance was made. In 1942, the Attorney General of the United States filed a brief under the Sherman Act against the South-Eastern Underwriters Association (SEUA), a cooperative rating bureau, alleging that

the bureau constituted a combination in restraint of trade. In its decision of the SEUA case in 1944, the Supreme Court reversed its decision of **Paul vs Virginia**, stating that insurance is interstate commerce and as such is subject to regulation by the federal government. **This decision still stands today.**

Public Law 15

Congress insisted that it was the right of the federal government to regulate the insurance industry, but stated in the **McCarran – Ferguson Act of 1945** that the federal government would not regulate insurance as long as the states did an adequate job of regulating the industry. Following the enactment of Public Law 15, the states attempted to put their houses in order, enacting rating laws, fair trade practices, and extending the licensing and solvency requirements.

Regulation Today

Insurance is presently regulated by the states, through the three basic branches of our state government; legislative, judicial, and the executive.

Regulation by the Legislative Branch

Each state enacts laws that govern the conduct of the insurance industry within its boundaries. These laws spell out the requirements that must be met by persons wishing to organize an insurance company in the state. A company domiciled within the state in called a domestic insurer. The laws also specify certain requirements that a company domiciled in another state (called a foreign insurer) must meet in order to obtain a license to do business in the state. In addition, the insurance code sets

forth the standards of solvency that is to be enforced and provides for the regulation of rates and investments. It also provides for the licensing of agents.

Regulation by the Judicial Branch

The judicial branch exercises control over the insurance industry through the courts by rendering decisions on the meaning of policy terms and ruling on the constitutionality of laws of the state and the actions of those administering the law.

Regulation by the Executive Branch – the Commissioner of Insurance

The central figure in the regulation of the insurance industry in each state is the Commissioner of Insurance. In most states the Commissioner of Insurance is appointed by the governor of the state and is charged with the administration of the insurance laws and the general supervision of the business. Few people understand the complicated nature of the position or the tremendous power the commissioner of insurance wields. Although he is a part of the executive branch of the state government, the commissioner frequently makes rulings which have the binding force of law and exercises judicial power in his interpretation and enforcement of the Insurance Code.

The National Association of Insurance Commissioners

The National Association of Insurance Commissioners (NAIC) has been an active force in the regulation of insurance since it was founded in 1871. Although it has absolutely no legal power over insurance regulation, it is an important force. Through it, the fifty state commissioners exchange information and idea and coordinate regulatory activities. On the basis of the information exchanged at its two annual meetings, the NAIC makes recommendations for legislation and policy. The individual commissioners are free to accept or reject these recommendations, but in past the majority of the commissioners have seen fit to accept the recommendations appropriate for their states.

Areas of Regulated

The Commissioner of Insurance has the power to license insurance companies and revoke those licenses. Before licensing an insurer to conduct business in the state, the commissioner must satisfy himself that the company to be licensed meets the financial requirements specified in the insurance code of the state. In order to qualify for a license, the insurance company making application must have a certain amount of capital and/or surplus. The exact amount required varies from state to state, being relatively small in some states and substantial in others.

In addition to the capital and surplus requirement, the commissioner normally reviews the personal characteristics of the organizers, promoters, and incorporators of the company in order to determine their competence and experience. **The commissioner may deny the application for a license if the organizers or incorporators prove to be unworthy of public trust.**

Examination of Companies

The insurance code requires every licensed company, domestic and foreign, to submit an annual report to the Commissioner of Insurance. This report includes information regarding the assets and liabilities of the company, its investments, its income, loss payments, and expenses, and any other information desired by the commissioner. In addition to the annual report, a periodic inspection of each company conducting business in the state is made by the commissioner's office. In the state of Maryland, all domestic and foreign insurers records are audited a least once every five years. The insurance commissioner may examine or inquire into the affairs of any insurer transacting business in the state at any time.

In order to eliminate duplication of effort, it is becoming a practice for the commissioner to examine only those companies that are domiciled in his state. **To provide for the examination of foreign companies, "zone" examinations are conducted, wherein each state in a zone (there are six zones) accepts the examination of the zone for its foreign insurance companies.**

INSURANCE RATES

All state insurance codes provide for the regulation of insurance rates, requiring that the rates be:

1. Not unfairly discriminatory
2. not excessive in nature
3. Adequate

Insurers may not charge a significantly different rate for two clients with approximately the same degree of risk, doing so would be a violation of unfair discrimination laws. **Any difference in rates charged must have an actuarial basis.**

Life insurance rates constitute a special case in the area of rate regulation. Apart from making certain that the insurance companies do not engage in price discrimination, the state regulatory authorities do not directly control life insurance rates. Life insurance companies do not engage in cooperative rate-making, as do the property and liability companies. However, the companies generally begin with the same mortality table and the dictates of competition generally force them to use realistic interest assumptions. In addition, legal restrictions on the expense portion of the premium help to control the cost of life insurance. Some states limit the amount of commission payable in the first year of a life insurance policy to 55% of the premium. Other states have no such limitations on commissions earned in the first year of the insurance contract.

The main reason why regulators have not in the past strictly regulated life insurance rates is because they believed that competition was an effective regulator itself. But a study by Joseph Belth has shown that assumption to be in questioned.

In Belth's study, he showed that there are wide differences in costs for identical insurance contracts. He also indicated that the consumer is generally not aware of the price he pays when he buys life insurance. Belth maintains that the pricing complexities in life insurance place analysis of the price beyond the reach of even the sophisticated buyer, and he advocates more extensive disclosure by life insurance companies.

In the area of property and liability insurance, most states follow the pattern of the "All-Industry Model Law," which was proposed in 1946 following the SEUA case. Under the provision of this law, the insurance company must file the rates they intend to charge with the Commissioner of Insurance for his approval. These rates cannot be used until the commissioner has approved them, or until a certain period has expired without his approval. The commissioner retains the right to disapprove the rates after the have become effective.

But in many cases, the commissioner has a limited staff to review rate filing, and as a result, the approval process may take a considerable amount of time. This often leads to a lag in the time between the need for a rate increase and its approval. Now there is a growing interest among industry leaders and insurance regulators in replacing the "prior approval" rate regulatory statutes with state laws under which property and liability rates would be set by the insurance companies themselves, subject to insurer competition.

Rates must not be excessive

Insurance has come to be regarded as a product that is essential to the well being of society. Insurers may not take advantage of the needs of society to realize unreasonable gains.

Rates must be adequate to cover losses

Insurance rates, together with the interest income from investments, must be sufficient to pay all losses as they occur and all expenses in connection with the production and servicing of the business.

The Reinsurance Market

Through the transfer and spread of insurance risk, reinsurance companies help to protect insurance companies and their consumers from unprofitable or catastrophic results, and provide the capacity to offer coverage to all who need it. On the other hand, inadequate or poor quality reinsurance can contribute to insurers becoming insolvent.

Because of the critical role reinsurance plays in the ability of insurers to keep their commitments to policyholders, a number of state insurance laws, regulations and accounting rules have been adopted to establish requirements for the conduct of reinsurance business and the conditions under which a ceding insurer may take credit for reinsurance in statutory financial statements. This accounting credit takes the form of the establishment of an asset for amounts that a ceding insurer is entitled to recover from a reinsurer or the reduction in the ceding insurer's liabilities or reserves for losses that it has reinsured.

The United States insurance industry has suffered a number of insolvencies of major commercial property/casualty insurers over recent years, and state regulators and industry analysts continue to be concerned about the adequacy of the amount of loss reserves being held by property/casualty insurers transacting business in the U.S. Commercial property/casualty insurers are the insurers the nation relies on for coverage of the risks involved in the provision of vital business and human services. Both federal and state regulators are constantly trying to find ways of helping insurers to improve their financial soundness and industry's image.

Insurers Investments

The ability of insurers to fulfill promises made to insureds will greatly depend on the value of the insurers' investments. Therefore, state regulators must be sure that these investments are sound. If it were not for outside regulation, insures might turn to investments which entail a greater degree of risk than is desirable in an attempt to increase their investment performance. In general, property and casualty insurance companies are granted greater latitude in their investments than life insurance companies. Each state's insurance code spells out the particular type of investments permitted to each type of insurance company in the state.
The investments permitted are usually the following:

1. United States government obligations
2. State municipal bonds
3. Territorial bonds
4. Canadian bonds
5. Mortgage loans
6. High-grade corporate bonds
7. Preferred and common stocks (on a limited basis)

Life insurance companies are generally permitted to invest only a small percentage of their assets in common stocks. Stocks represents less than 5% of the total investment holdings of life insurance companies, while approximately one-third of the assets of property and casualty companies are invested in common stocks.

Nonrenewable and Cancellation

Many states have laws that limit the right of insurers to cancel or non-renew insurance policies. The purpose of these laws is to make certain types of insurance more readily available, like homeowners and personal automobile insurance.

Generally auto policies that have been in effect for 60 days or more may only be cancelled for the following reasons:

- Insured submitted a fraudulent claim
- Policy was obtained through material misrepresentation on the application
- Nonpayment of premium
- Risk originally insured has significantly increased
- Insured has violated terms or conditions of the policy

PERSONAL PROFILE
(PLEASE PRINT CLEARLY)

COURSE NAME: ETHICS PRACTICE

YOUR NAME...

SOCICAL SECURITY..

AGENT'S LICENSE # ....

TELEPHONE #..FAX.............................

ADDRESS...

CITY...STATE.....................

COMPANY'S NAME...
TELEPHONE...

AFFIDAVIT OF PERSONAL RESPONSIBILITY
(TO BE SIGNED BY AGENT)

I AFFIRM THAT I PERSONALLY COMPLETED THE ENTIRE STUDY MATERIAL. I ALSO AFFIRM THAT I COMPLETED THE EXAMINATION WITHOUT ASSISTANCE FROM ANY COURSE MATERIAL, OTHER MATERIAL OR FROM ANY PERSON.

.. ..
SIGNATURE (SIGN IN INK ONLY)

Ethics Practice – Final Examination

AGENT'S NAME...

1.....	**21....**	**41...**
2.....	**22....**	**42....**
3.....	**23....**	**43....**
4.....	**24....**	**44....**
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9.....	**29....**	**49....**
10...	**30....**	**50....**
11....	**31....**	**51....**
12....	**32....**	**52....**
13....	**33....**	**53....**
14....	**34....**	**54....**
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19....	**39....**	
20....	**40....**	

FAX YOUR PERSONAL PROFILE AND ANSWER SHEET TO 1-410-734-7966

ETHICAL PRACTICES

QUESTIONS

1. Producers have illegally altered the insurance application for the following reasons except:

a. Adding zeroes to the amount of coverage the customers applied for
b. Switching the type of coverage being applied for to earn a bigger commission on the sale
c. Changing the underwriting information to get a more favorable rate for the customer
d. Drawing a line through an error on the application and having the customer initial it

2. The power of an agent rests primarily on the authority granted in the ....

a. policy
b. agency contract
c. client's application
d. none of the above

3. All of the following are true about agent's authority **except**

a. The agent has stipulated and expressed authority.
b. The agent has implied authority.
c. The agent has apparent authority.
d. The agent has unlimited authority.

4. The law considers the agent and the principal as....................

a. one and the same
b. individuals
c. partners
d. clients

5. Generally auto policies that have been in effect for 60 days or more may only be cancelled for the following reasons except:

a. Insured submitted a fraudulent claim
b. Policy was obtained through material misrepresentation on the application
c. Payment of premium on time
d. Risk originally insured has significantly increased

6. If the information on an application is false or incomplete, the insurer may be able to do what?

a. void the contract
b. ask the agent to have the application fully competed
c. reject the application
d. all of the above are true

7. Which of the following is false?

a. Oral representations are difficult to prove in court.
b. An insurance policy is a contract.
c. Written contract are difficult to prove in court.
d. Representation may be oral or in writing.

8. It is whose responsibility to make sure that all questions on the application are answered truthfully and completely?

a. the applicant
b. the agent
c. the insured
d. policyholder

9. The primary role of State Insurance Commissioners is the protection of whom?

a. consumers
b. criminals
c. agents
d. insurers

10. State Commissioners have the authority to regulate all the following **except**

a. insurers
b. agents
c. premium finance companies
d. retail merchants

11. In the case of Paul vs. Virginia, who did the Supreme Court ruled had the legal right to regulate the insurance industry?

a. the courts
b. the federal government
c. the states
d. the Attorney General

12. The Supreme Court's decision in Paul vs Virginia stood for how many years?

a. 10
b. 25
c. 50
d. 75

13. The National Association of Insurance Commissioners has legal power over which of the following states?

a. Maryland
b. New York
c. Virginia
d. none of the above

14. All states insurance codes provide for the regulation of insurance rates, requiring that the rates be:

a. Not unfairly discriminatory
b. Not excessive in nature
c. Adequate
d. all of the above

15. Common stocks traditionally represent what percentage of a life insurance company's assets?

a. 5%
b. 10%
c. 20%
d. 25%

16. Common stocks traditionally represents what percentage of property and casualty companies' assets?

a. 10%
b. 20%
c. 33 1/3 %
d. 50%

17. Life insurers are allowed to invest in which of the following securities?

a. Canadian bonds
b. Territorial bonds
c. High-grade corporate bonds
d. all of the above

18. What has been the chief criticism of state regulation?

a. Lack of uniformity
b. Insufficient staff
c. Corrupted commissioners
d. All of the above

19. The United States has how many different state insurance codes?

a. 25
b. 35
c. 50
d. 51

20. How many branches of state governments regulate insurance companies?

a. one
b. two
c. three
d. four

21. Which branch of state government renders decisions on the meaning of policy terms?

a. Judicial
b. Executive
c. legislative
d. Insurance Administration

22. Which branch of state government enacts insurance laws?

a. Judicial
b. Executive
c. Legislative
d. Insurance Administration

23. Which branch of state government specifies certain requirements that a company domiciled in another state must meet in order to obtain a license to do business in the state?

a. Judicial
b. Executive
c. Legislative
d. Insurance Administration

24. Which law grants states the right to regulate insurance companies?

a. Pubic Law 11
b. Pubic Law 12
c. Pubic Law 13
d. Pubic Law 15

25. The Insurance Commissioner is part of what branch of state government?

a. Judicial
b. Executive
c. Legislative
d. none of the above