

# ILLINOIS INSURANCE LAW-LIFE

PRESENTED BY

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(An Illinois Certified Provider since 1987)

## SUGGESTED METHOD OF STUDY

*Success on the law portion of your licensing exam is directly related to your ability to memorize information and to utilize a common sense approach to which behavior is right and which is wrong.* The insurance laws of Illinois are in place to protect the consumer from wrongdoing by insurance carriers and the producers who represent them. The test simply is designed to measure whether or not you know certain facts (like dollar amounts of fines and number of days, months years of selected topics) rules, regulations and responsibilities the Illinois Department of Insurance requires of insurance producer.

**Illinois insurance law is "Part 2" of your Pearson Vue examination.** The number of questions you can expect to receive from each section is detailed as follows:

<u>TOPIC</u>	<u>PAGE NO.</u>	<u>NO. OF QUESTIONS</u>
<b>Contract and Information Overview</b>	<b>2-3</b>	
<b>General Illinois Insurance Law applicable to all lines</b>	<b>4 - 17</b>	<b>22</b>
General Law Quick Reference	<b>18</b>	
Law applicable to <b>Life Insurance</b>	<b>19 - 27</b>	<b>9</b>
<b><u>EXAMINATION TEST TAKING SUGGESTIONS</u></b>	<b>28</b>	

Therefore, the **TOTAL NUMBER OF QUESTIONS, WHICH COUNT IN SCORING** your test, for THE LIFE law exam is: **22 + 9 = 31**

You will be given more questions than the total shown above because the testing company, Pearson Vue, is allowed to insert **EXTRA QUESTIONS CALLED "pre-test" questions** into the exams of licensing candidates. There are 8 pretest law questions on the Life exam for Illinois. These extra "pre-test" questions are not identified **AND THEY DO NOT COUNT** as part of your test score. Therefore you must analyze each question seriously, even though some may not count for or against you.

## ILLINOIS INSURANCE LAW - REVISED JANUARY 1, 2009

### Common To All Lines of Insurance - 22 Total Questions

This section must be studied and mastered in order to pass PART 2 of any Illinois insurance examination. This first section applies to ALL lines of Insurance, whereas any section which follows pertains specifically to an individual line of insurance (i.e., Life, Accident & Health, Property or Casualty). *You must study BOTH these common laws AND the laws specific to the line of insurance for which you wish to obtain a license.*

#### OVERVIEW: THE NATURE OF A CONTRACT (OF INSURANCE) and TERMINOLOGY

##### There are Five essential elements of any contract:

- 1.) Need two or more competent parties (BE SANE & LEGAL AGE)
- 2.) Must have offer and acceptance
- 3.) Mutuality of assent (UNDERSTAND WHAT EACH PARTY GETS)
- 4.) Consideration (MONEY OR EXCHANGE OF PROMISES)
- 5.) Legal Purpose (ILLEGAL CONTRACTS ARE NOT ENFORCEABLE)

Types of Contracts - Insurance contracts may have one or more of the following characteristics:

- **Conditional** -- performance by one party is predicated upon the satisfaction of certain conditions first being met by the other party. **The insurance company will perform if the insured has met the condition of timely premium payment.**
- **Aleatory** -- means **unequal consideration** through an element of chance that one party may receive more in value than given. **The premium is less than the company agrees to pay in the event of loss.**
- **Executory** -- one party has duties which are unfulfilled and yet to be performed. **While the insured has done all required by him, the company does not do its part until expiration of policy term or benefit payoff.**
- **Personal** -- one party relies upon the individuality of the other party when agreeing to the terms of the contract. **Therefore no substitution of a party is allowable.** (You cannot take the insurance physical in place of your friend)
- **Adhesion** -- "**take it or leave it**" concept of contract; there is no give and take, therefore any contractual ambiguities are resolved in favor of the insured when the language of the contract, as written by the carrier is unclear or ambiguous. **The insured is in an unfair bargaining position** since an agent (producer) cannot vary or change ANY of the terms of the insurance contract offer.
- **Unilateral** -- only one of the parties to the contract is bound. **If the insured continues to pay the premium, the company is always bound. This is true of all life policies and guaranteed renewable health insurance contracts. If the carrier can terminate or not renew a health contract with proper notice then such a policy is an example of a Bilateral contract.**
- **Voluntary** -- Agreed upon conditions are included in the wording of the contract. **Both parties enter into the agreement freely upon issuance of coverage.**

## TYPES OF INSURANCE COMPANIES

### Stock VS Mutual Insurance Companies

- 1.) **Stock** - owned by shareholders of company. Policy holders in a stock company receive nothing more than the contract of insurance. All stock dividends are paid to stockholders.
- 2.) **Mutual** - is composed of/owned by policyholders who participate in the success (or failure) of the company through dividends (which are not taxable; they are deemed to be a refund of excess premium charged). There are no stockholders in a mutual insurance company. (also called “participating” companies).

### Domestic, Foreign and Alien Insurance Companies

- 1.) **Domestic** - is a company organized (incorporated) under the laws of the state in which it does business. (i.e. New York Life in NY)
- 2.) **Foreign** - a company organized under the laws of a state different than the one in which business is transacted. (New York Life in Illinois.)
- 3.) **Alien** - companies are organized under the laws of a country other than the United States.(New York Life in Canada).

### Admitted and Non Admitted

- 1.) **Admitted** - licensed in the state in which it is doing business. Admitted companies are expected to adhere to all the insurance regulation in Illinois and to be financially responsible to policyholders.
- 2.) **Non-Admitted** - not licensed in a state. A Surplus Line Broker is the only way to transact business when the company is non-admitted. Such companies are out of the reach of Illinois policyholders in the event the Non-Admitted company becomes bankrupt (usually associated with medical malpractice insurance).

***I) ILLINOIS STATUTES AND REGULATIONS COMMON TO LIFE, ACCIDENT & HEALTH, PROPERTY, CASUALTY AND PERSONAL LINES (22 QUESTIONS) FOR EXAMS ADMINISTERED ON OR AFTER 01/01/09***

**(THE FOLLOWING STATE STATUTES, RULES AND REGULATIONS OF ILLINOIS CORRESPONDS TO THE PEARSON VUE ILLINOIS SPECIFIC LAW CONTENT OUTLINE, ACCORDING TO CITATION)**

**A) THE INSURANCE DIRECTOR (1-2 Questions out of 22 Total)**

**1) General Powers of the Insurance Director (215 ILCS 5/401; 5/403; 5/401.1; 5/431)**

The Illinois Code (Statutes) states the Director is "charged" with the rights, powers, and duties appertaining to the enforcement and execution of all the insurance laws of the state. The Director is appointed by the Governor (executive branch of government). Therefore, **the Director does not have the power or authority to imprison anyone.** The word "person" used below includes individuals and companies as "legal" persons.

**Ref. 5/401 "General Powers":**

- a) to *make reasonable rules and regulations* necessary for making insurance laws effective;
- b) to *conduct investigations* needed to determine whether any person (or company) has violated any laws;
- c) to *request the Attorney General to assist* the Director to enforce his lawful Orders;
- d) to *utilize criminal information* obtained under State Police Law to carry out his statutory powers

**Ref. 5/401.1 Applies to All Companies and Persons Subject to Examination by the Director:**

- a) *Anyone purporting to transact insurance business in Illinois or in the process of organizing with intent to transact insurance business in Illinois is subject to Director's Powers* (includes *those who have or had* a "Certificate of Authority" (which means a license) to operate in Illinois to do insurance business.
- b) The *Director can issue a Cease and Desist Order* (Stop the activity immediately) *to anyone whose behavior (the focus here is on hazardous and illegal activity) threatens insolvency of a company or otherwise endangers policyholders, creditors or the public.* This Cease and Desist order can be issued BEFORE any hearing is actually conducted.
- c) *If a Cease and Desist order is issued the Director must serve notice to the recipient* of the order a hearing to be held at a fixed time and place which *may not be less than 20 or more than 30 days after the notice of hearing is served to the recipient.*
- d) If, after the hearing, the allegations are found to be true the *Director may remedy the conduct with an order* or orders as he deems necessary.
- e) If any person or company violates the lawful and final order of the Director or fails to comply with such an order in the manner pursuant to this section (5/401.1) then *such person must pay a fine at the rate of \$100 per day not to exceed \$5,000 maximum.*

**Ref. 5/431 Penalty for Cease and Desist Order Violation Relating to Unfair Competition**

- a) Any person or company *violating a Cease and Desist, specifically relating to unfair marketing practices* as defined in Ref. 5/424( I) G) 5) "Other Unfair Practices" (found on page 17 of these materials) after it is final *must pay a fine not to exceed \$1,000 for each violation, which can be recovered in a civil action.*

### **Ref. 5/403 Power to Subpoena and Examine Witnesses**

- a) To conduct a hearing, examination or investigation the *Director may subpoena any person and compel attendance* as well and require the production of any relevant records, books or papers.
- b) *Any person who fails to obey a subpoena or refuses to be sworn to be examined without a just reason can be fined a maximum of \$2,000*. Further, such person can have a petition filed by the Director against them in a Circuit Court to force cooperation and if they still fail to obey the court has statutory authority to punish such person with fine and/or imprisonment.

### **2) Examinations (215 ILCS 5/132; 5/402; 5/401; 5/500-110)**

#### **Ref. 5/132 Market Conduct and Non-Financial Examinations**

- a) Any person being *examined for their conduct* (not related for financial matters) in the operation of insurance matters in Illinois *must give the Director easy and free access at all reasonable hours at its office* or location all books, records, papers, etc., relating to the business performance, operations and affairs of the company. *Directors and examiners can administer oaths* to examine any party under oath.
- b) The *Director must notify any person made the subject of a conduct examination of the contents* of a verified examination report *before making such a report public* and afford the person the opportunity to a hearing. The *person may request a hearing within 10 days after receiving the examination report* (and also include in their hearing request all written objections they had to the contents of the report).
- c) When the *Director conducts a hearing in accordance with Sections 5/402 and 5/403* he *must issue a written order based* on the examination report and hearing *within 90 days after the report is filed or within 90 days after the hearing*. If there was a determination by the Director of the violation of any law then the *Director may issue a written order to take any action deemed appropriate*. This order is subject to judicial review.
- d) *Any person that violates or aids and abets any violation of a written order issued under this non-financial market conduct statute shall be guilty of a BUSINESS offense for which they may be fined not more than \$5,000.*

#### **Ref. 5/402 Examinations, Investigations and Hearings**

- a) The Director may conduct any exam, hearing or investigations personally or appoint personnel retained by the Division of Insurance for such purpose. *If it is necessary to hire additional independent personnel to supplement its examination procedures then the person or company under investigation must bear the added expense*
- b) All hearings under this code shall be held at such time and place as designated in a notice which shall be *given by the Director to the person affected at least 10 days before the date designated* in the hearing notice.

### **Regulatory Examinations (Producers) (Ref. 5/500-110)**

- a) The **Director can examine any holder of any type of producer license as well as any applicant of any type of producer license (including a business entity license)**. Any persons being examined must provide free and easy access to their office or location and all papers, books, records, etc., for examination. Again the director can appoint examiners who all have the power to administer an oath and examine all parties under oath.
- b) A report may be issued by an examiner alleging substantive violations of law and such report must be based on the testimony and evidence obtained as part of the examination procedure. **If a report is made, the Director must deliver or send by registered mail a copy of this report to the examined person's address of record.**
- c) The **person examined may request a hearing within 14 days after receiving a hearing report copy**. Such a request must be made in writing and contain a written statement of any objections to the report. **The Director must issue a written order within 90 days based on the report and on the hearing, if a hearing is held, within 90 days of the hearing date.**
- d) Based on either the report or hearing, if ***a violation of law stands the Director may issue a written order*** as he deems necessary or appropriate for the situation. ***Any person who violates or aids and abets any violation of a written order issued under this code Section shall be guilty of a business offense and his or her license may be revoked or suspended and subjected to a civil penalty not to exceed \$20,000.***

## **B) LICENSE AND REGISTRATION** (3- 5 Questions out of 22 Total)

### **1) Persons required to be Licensed**

#### **a) INSURANCE PRODUCERS (Ref. 5/500-15)**

**If you sell, solicit or negotiate in Illinois for any class of insurance, then you must be licensed** in the appropriate line or lines of PRODUCER authority as required by law (i.e. Life, Accident and Health, Property, Casualty or Personal Lines)

In addition to all other penalties proscribed by the insurance code for ***selling insurance without a license, it is also a Class A misdemeanor*** (can get up to one year in jail). **Anyone who** sells insurance with or without the appropriate license and who also misappropriates or converts (*steals*) ***any money collected is guilty of a Class 4 felony*** (subject to more than one year in jail).

**b) LIMITED LINES PRODUCER (Ref.5/500-100):** **Appointed by an Insurance Company to represent it, in a limited capacity as specified below) each bullet point represents a separate and distinct limited lines producer license:**

- Industrial Life Insurance
- Common Carrier (Coverage for trip cancellation, baggage and travel insurance)
- Industrial Accident and Health Insurance
- Legal expense insurance
- A company organized under the "Farm Mutual Insurance Company Act of 1986"
- Enrollments of public aid or Medicare recipients into a health maintenance organization (HMO)
- A limited health care plan issued under a certificate of authority granted by Limited Health Service Organization Act
- Car rental limited lines license available to representatives of car rental companies.

**KEY TO LIMITED LINES PRODUCER LICENSES >> An exam is not required and limited lines producer reps can sell for more than one company at the same time (persons who get these license types are APPOINTED by a company).** The LL producer must be at least 18 and have a good business reputation. The LL producer license is perpetual as long as the company pays the annual fee for the producer. Neither prelicensing nor continuing education requirements apply.

**c) NON RESIDENT PRODUCER LICENSE (Ref. 5/500-40):** Qualifications are::

- Person must be **currently licensed in good standing** in his or her home state.
- Submit the proper paperwork and pay the license fee (**\$250 biannually**)
- Illinois will **only grant this license if the other state accepts Illinois producers** in the same manner.
- The Director **can verify out-of-state producer** status using the National Producer Database
- If a *licensee moves* from one state to another must **notify Illinois within 30 days** after the change..
- Other *nonresident licenses available* include those for *Surplus Lines Brokers and Limited Lines Producers*.

**d) BUSINESS ENTITIES (Ref.5/500-30; 5/500-35)**

A **business entity** (i.e. corporation that is an agency for an insurance company or companies) acting as an insurance producer **must obtain a producer license. An application must be filed** (“Uniform Business Entity Application.”) and the appropriate fee must be paid (**\$150 biannually**). **The entity must designate a licensed producer to be responsible for compliance with Illinois insurance laws and rules. There must always be a licensed producer available as the contact and compliance person designated for the entity.** The Director can require any document needed to verify the information provided in the application as a business entity.

**e) TEMPORARY INSURANCE PRODUCERS (Ref. 5/500-60; 5/500-65)**

**1) Temporary Licensing (5/500-60)** may be issued up to 180 days and renewed for an additional 180 days, without an examination, in these cases:

- To a **surviving spouse or court appointed representative of an insurance producer who dies or, becomes mentally or physically disabled** so that enough time can be allowed for the sale of the insurance business owned by the producer or for the recovery of the producer or to provide for the training and licensing of new personnel to operate the disabled producer’s business.
- To a **member or employee of a business entity licensed as an insurance producer, upon the death or disability of an individual designated in the business entity application.**
- The **designee of a licensed insurance producer who enters active duty with the armed forces of the US military may also obtain this temporary 180 day license.**

A licensed sponsor may be required and the Director may limit the temporary license in any way he sees fit to protect the public or revoke it if he deems it necessary to protect the public. **A written application and \$50 fee is required.**

## **2) Temporary License for Producer Application (Ref. 5/500-65)**

**This rule allows a person to obtain a Short Term, 90 day temp license while preparing to pass the state exam.** The holder must be in a qualified training course on behalf of an insurance company, with a supervisor or a company manager, and must be in the process of fulfilling the prelicensing requirement. The applicant must take the exam at the scheduled time. **This is a once in a lifetime opportunity. It cannot be renewed!**

**If during any SIX month period, more than 50% of a company's temporary licensees fail to obtain their producer license prior to the end of the 90 day period; the Director may cancel the right of the company to hire producers with the temporary license.** An insurance company must file a written form with, and be approved by, the Director before temporary licenses can be granted by the company and **a \$50 fee is required.**

## **f) EXCEPTIONS TO LICENSING (Ref. 5/500-15)**

*No person may, for a fee, engage in the business of offering any advice, counsel, opinion or service with respect to the benefits, advantages, or disadvantageous under any policy of insurance that could be issued in Illinois with the following exceptions:*

- 1) **An attorney**, licensed to practice law, performing duties incidental to that position;
- 2) A **licensed insurance producer**, limited lines producer insurance representative, or temporary insurance producer offering advice on a class of insurance for which he or she is licensed
- 3) **Public Adjusters**, while acting within the scope of their license.
- 4) **Trust officers** of banks, while performing incidental duties.
- 5) An **actuary or a certified public accountant** engaged or employed in a consulting capacity, performing duties incidental to those positions.

## **Other exceptions to producer licensing (Ref5/500-20):**

•An insurance company is not required to obtain a producer license *nor are the insurer's officers, directors employees, subsidiaries or affiliates* (as long as these parties do not receive any commission on policies written or sold in this state). *This includes administrative, executive, managerial or clerical employees* as well. It also extends to those providing only technical advice about insurance product and those who furnish information for group life, property and casualty and health insurance for the sole purpose of enrolling individuals into the group plan. *Also people working with insurers belonging to the following organizations are excepted:*

- Employer's associations
- Personnel engaged in inspection, rating and underwriting functions
- Advertising and Marketing consultants

**KEY CONCEPT**> If a person is not receiving compensation directly from the sale solicitation or negotiation of an insurance product then they are not required to obtain a producer license

## **2) OBTAINING A LICENSE (1-3 QUESTIONS OUT OF 22 TOTAL)**

### **a) Qualifications (Ref.500-30)**

To be a qualified, successful candidate for producer licensing a candidate shall possess **ALL FIVE REQUIREMENTS** which follow:

- **Successful State Examination (Part I and Part II- valid for 12 months from passing date)**
- **Be at least 18 years old**
- **Has not committed any act that is grounds for denial, revocation or suspension**
- **Successfully completed the appropriate prelicensing course(s)**
- **Paid the appropriate fee (\$180.00 for biannual license).**

If a producer has their license suspended, revoked or denied they are no longer qualified to work for any carrier or agency in the capacity of insurance producer (See Section I) B. 4, below (page 11) for laws regarding this topic.

### **b) License Fees (Ref. 5/500-135)**

<b>Processing/Application Fee Amount</b>	<b>Category</b>
\$ 180.00	Producer License (Biannual - once every two years)
\$ 360.00	Reinstating a Lapsed License/Late renewals (double renewal fee)
\$ 50.00	Limited Line Producer (Resident-annual)
\$ 250.00	Limited Line Producer (Non-Resident-biannual)
\$ 150.00	Business Entity Renewal (biannual fee)
\$ 50.00	Exam Fee Application for Illinois Law
\$ 50.00	Temporary License for Producer Application (90 days)
\$ 50.00	Temporary Producer License fee (180 days)
\$1,000.00	Certified Provider Reg. Fee (annual)
\$ 50.00	Course Certification Fee (Provider - annual)
\$ 20.00	Certified Course Renewal Fee (Provider -annual)

**TESTING FEE --- (To Pearson Vue- paid separately- \$ 103.00, it includes Illinois Law exam fee which is \$50) (This \$103 fee includes full testing for up to two lines of authority – one or two lines, the same test fee).**

***All fees collected are placed into the “Insurance Producer Administration Fund.”***

### **c) Pre-licensing (Ref. 5/500-30; Reg.3119)**

*Successful completion of a prelicensing course has the following minimum hours, by class, as follows*

- **Life • Accident & Health • Property • Casualty• Personal Lines..... 15 hours for each line**
- **Motor Vehicle.... 7.5 hours**

Hours can be all classroom, all self-study or any combination of both. **Self-study prelicensing requires that an exam be successfully passed and graded by the course provider.** (Note: Casualty includes Motor Vehicle and Property and Casualty includes Personal Lines). Prelicensing course credit is valid for 12 months from the date of course completion.

### **d) Bond Requirements (Ref. 5/500-130)**

An insurance **producer who places insurance either directly or indirectly with an insurer with which the insurance producer does not have an agent contact** must maintain in force while licensed a bond in favor of the people of the State of Illinois executed by an authorized surety company and payable to any party injured under the terms of the bond. *Such activity is considered to be “brokering business.”* Failure to maintain a bond when required will result in revocation or denial of license.

- 1.) **for \$2,500** (which is the bond "penalty" or face amount) **or**
- 2.) **5% of premium received in previous year**, whichever is greater (**not to exceed \$50,000** total aggregate liability).

Authorized insurance *producers of a business entity may meet the requirements of this Section with a bond in the name of the business entity. Insurance producers may meet the requirements of this Section with a bond in the name of an association.* An individual producer remains responsible for assuring that a producer bond is in effect and is for the correct amount. The association must have been in existence for 5 years, have common membership, and been formed for a purpose other than obtaining a bond.

- A **surety** (the insurance company who issued the bond to the producer) **may cancel the bond with 30 days** notice to the **principal** (purchaser of the bond).
- An **injured party can request that the producer provide the surety name and bond number** and the **producer must comply within 3 working days** of receiving such a request.

### **3) Maintaining The License** (1-3 Questions out of 22 Total)

#### **a) Continuing Education (Ref.5/500-35)**

**Currently**, all producers are required to satisfactorily complete continuing education requirements and a Producer license will not be renewed if these requirements are not met (except for military waiver):

- **30 hours** of approved course study offered by a certified provider
- for **each biannual license renewal** (every two years).
- **No single continuing education course may be certified for more than 15 hours of credit.**
- Producer *must complete a CE course in advance of the renewal date so as to allow the education course provider time to report the course completion*
- **Failure to comply by the renewal due date** results in automatic license termination and subjects the producer to a **double renewal fee of \$360.**

*If a producer license lapses (is not renewed on time), the producer has up until 12 months after lapse to comply and complete the 30 CE requirement but they will have to pay a double license fee. If it has been more than 12 months after lapse, the person must go through preclicensing and pass a state exam again.*

*CE course Programs can be all or part self-study* (requires successful completion of an (open book) exam while programs offering all 15 hours of completion in a classroom have no exam requirement).

**The producer license is perpetual (goes on forever) as long as the producer maintains and pays the required fees for the license in a timely fashion.**

**b) Controlled Business (Ref. 5/500-125)**

*Controlled business means insurance procured* or to be procured by or through the person *upon* :

- His own life, person, property or risks, or those of his spouse; or
- The life, person, property, or risks of his employer or his own business.

The Director **may not grant or renew any license if he has reason to believe**

● that **during either** of the *preceding 2 years the total amount of controlled business premium collected was greater* than the premium amount collected for all other insurance business **or**

● *in the 12 months immediately following the issuance of the license the total amount of controlled business premium collected was greater* than the premium amount collected for all other insurance business.

**KEY >> An insurance producer must sell more insurance on others than controlled business.**

**c) Change of Address (Ref. 5/500-35)**

Licensees must **inform the Director by any means acceptable to the Director of a change of address within 30 days** after the change. (*Note: failure to comply with this is the #1 reason producers are late in renewing, thus costing them a double fee.*)

**4) License Suspension, Revocation or Denial (Ref. 5/500-70)**

The Director can place any license on suspension, revoke it or refuse to issue (Deny) a license or may levy a civil penalty or take any combination of these actions **for any one or more of the following reasons:**

- 1.) **Provide incorrect, misleading, incomplete or materially untrue information in the producer license application.**
- 2.) **Violate any** insurance law, rule, subpoena or order of the Director of Insurance of ANY state.
- 3.) **Knowingly accept any business from anyone who does not have a license.**
- 4.) **Intentionally misrepresenting the terms** of an actual or proposed insurance contract or application for insurance.
- 5.) Having admitted or been found to have committed **any insurance unfair trade practice or fraud.**
- 6.) **Forging a name** to an application for insurance or to a document related to an insurance transaction.
- 7.) **Had license revoked/suspended in any other jurisdiction** and the same result would occur in Illinois.
- 8.) **Try to get a license through misrepresentation or fraud.**
- 9.) Improperly **using notes** or any other reference material **to complete an examination** for an insurance license.
- 10.) Having been **convicted of a felony.**
- 11.) **Misappropriating**, improperly holding or converting any **business funds for personal use.**
- 12.) Be **fraudulent, coercive, or use dishonest practices**, be unworthy of trust or be incompetent in the transaction of business by way of the license.
- 13.) **Failing to comply with** an administrative or **court order imposing a child support** obligation
- 14.) **Failing to pay state income tax** or penalties or interest or to comply with a court order directing payment of state income tax or failure to file a tax return or to pay any tax due to the Illinois Department of Revenue.
- 15.) **Failing to make satisfactory repayment on an Illinois Student Loan.**

Once the Director takes action to Suspend, Deny or Revoke a license or application, the affected person is contacted in writing and the **applicant or licensee may make a written demand upon the Director within 30 days after the date of mailing** for a hearing before the Director to determine the reasonableness of the Director's action. Once this written request for a hearing is made by the producer:

- **The actual hearing date will be no less than 20 or more than-30 days** from the mailing of the notice of the hearing from the Director to the producer.
- Resulting **punishment for wrongdoers can include not only suspension, revocation or denial of license, but a civil penalty can also be imposed.** The civil penalty can run **up to \$10,000 for each cause** with a **maximum civil penalty of \$100,000 for violations of the Director's lawful order.**
- A person whose license is revoked or an applicant whose application is denied is **not eligible to apply for any license for 3 years after the revocation or denial.** A suspension is for a period deemed appropriate by the Director.
- Anyone who suffers Suspension/Revocation or Denial **may not be employed, contracted or engage in any insurance related capacity during the period** of imposed Suspension/Revocation or Denial.
- **All Licenses must be surrendered to the Director in person or by mail when suspended or revoked.** All terminated license actions are published and become public information.
- The **license of any business entity shall be suspended revoked or refused** where it was known or should have been known by officers, partners or managers of the entity (after a hearing is held) that an individual licensee's engaged in a violation but it was no reported to the Director, nor was any corrective action taken by the entity.

### **C) Fiduciary Responsibilities Ref. 5/500-115) (2-3 Questions out of 22 Total)**

Any licensed person who collects money in the course of their occupational duties is in a **fiduciary (trust) relationship with the public.** The insurance company expects a contracted insurance producer to deliver a policy in a timely fashion and expects the producer to act honestly and to forward any monies collected appropriately. **A violation of this trust is a serious offense** and such violations and resulting consequences include:

**Violations:** ● *improperly holding monies* (hold client funds **in excess of 15 days**), ● *misappropriating or converting (stealing) client funds* and ● *not delivering an issued policy and collecting the first premium within 90 days of policy issuance* (in other words, once a policy is issued, don't keep it in your trunk for 3 months or longer without delivering it and collecting the first premium payment due).

#### **Specific violations related to dollar amount include:**

- \$150.00 or less stolen is a Class A misdemeanor
- Steal \$150.00 or less twice or more it is a Class 4 Felony
- **Steal in excess of \$150.00 and it is a Class 3 Felony**

■ **Any money collected by a producer is deemed to have been received by the insurance company** and the insurer is responsible to the insured for any return premium.

■ **For open accounts receivable** which have a balance due to the company within specified periods of 90 days or less, a service charge not exceeding 1.5% per month on amounts due may be assessed BY PRODUCERS to encourage timely premium payment.

### ■ **Premium Fund Trust Account (PFTA) – (Ref. Section 3113)**

**This regulation** establishes minimum standards of licensees in handling insurance premiums properly (and other monies) received from insurers, insureds, other licensees or registered firms and subjects those who violate these standards to penalties under law and proceedings of the Illinois Insurance code. Section 3113 applies to all licensed persons (both resident and non-resident) and to registered firms.

- Licensees maintaining a PFTA must do so in ***a financial institution within the State of Illinois subject to the jurisdiction of Illinois courts*** and PFTA must be printed on the face of checks and the account must be registered with the financial institution as a Premium Fund Trust Account.

- A ***PFTA must be established if a producer holds any premiums for 15 days or more before remitting to another proper party*** OR if a producer deposits any collected premiums into a financial institution account or other account or uses the premiums, even though the premiums are remitted within 15 days.

- All licensees who maintain or are required to maintain a PFTA ***must deposit all premiums received into the PFTA. Non-premium monies collected may also be deposited*** into a PFTA if received ***for soliciting, negotiating, effecting, procuring, renewing, continuing or binding policies of insurance*** (includes service fees, policy fees, late charges, inspection fees and surplus lines premium taxes).

- All monies deposited into the PFTA are considered fiduciary funds until lawfully withdrawn.

- The **disbursements which can be can legally withdrawn from a PFTA include** : 1) net or gross premiums due to insurers, 2) returned premiums due to insureds, 3) commissions due to producers, 4) banks fees and service charges, 5) non-premium monies when matched and identified with prior non-premium PFTA deposits, 6) interest or other revenue which the licensee is authorized to retain and 7) withdrawals allowed under this Act must be made payable to the licensee or another licensee

- **The PFTA account balance must at all times be equal to the amount deposited less any LAWFUL withdrawals.** If the balance comes up short, the licensee is deemed to have misappropriated (stolen) fiduciary funds.

- Licensees ***may place PFTA funds in an interest bearing account and keep the interest PROVIDED THE LICENSEE HAS THE PRIOR WRITTEN AUTHORIZATION OF THE INSURER ON WHOSE BEHALF THE FUNDS ARE TO BE HELD!***

- A licensee can put interest bearing funds into: US Government securities maturing in not longer than one year, CD's with a one year max maturity time, highly rated commercial paper, conservative money market funds and highly rated municipal bonds maturing in no longer than a year. ***YOU CAN NEVER PUT PFTA FUNDS IN HIGH RISK ACCOUNTS SUCH AS BUYING OPTIONS, FUTURES OR BUYING EQUITIES ON MARGIN.***

- Any PFTA investment transaction must be made in the name of the PFTA and the licensee shall maintain evidence of any such investment that flows through the PFTA.

- The **minimum record keeping requirements of a PFTA are quite comprehensive** mandating that detailed records of all parties, dates, policy numbers, check numbers, amounts deposited and disbursed, etc., and all elements relating to any commission payment be meticulously recorded. **All accounting posting must be done no less timely than every 30 days. All books and records for a fiscal year must be maintained for at least 7 years.**

- All PFTA bank statements must be balanced monthly.

● Any return premiums must be paid or credited to the insured's account within 15 days of receipt from an insurance company or other licensee. If there is a credit balance to an insured's account that is kept past 15 days there must be written authorization from the insured and the credit cannot be retained for more than 12 months from authorization and the insured has the right to all credits at any time which must be refunded upon request within 15 days. Finally, any credits carried must be sent in writing at least monthly reflecting the total credit available.

#### **D) Commissions and Compensation (Ref. 5/500-80)** (0-1 Question out of 22 Total)

##### **THE TWO MAIN RULES:**

- 1) A person must have the appropriate producer license to receive commission and
- 2) A person cannot be paid directly from an insured with these **two exceptions**:

- Commission deductible from premium with net forwarded to the insurance company, or

● Service fee – There *must be a written document signed by both parties if the service fee or compensation exceeds 10% of the potential total premium amount* for an insurance related transaction. *A copy of this written disclosure must be kept for 7 years. If a policy or contract is canceled within 90 days of the inception date of the written agreement then the producer or business entity must refund a prorated amount within 30 days to the consumer, Service fees may be considered fully earned as of inception if the insurance producer provides a written disclosure that such fees were fully earned as of inception miscellaneous related concepts:*

- Renewal or deferred commissions may be paid to the selling producer at a later time when he is no longer licensed as long as the producer was properly licensed at the time of the sale.
- There can be no service fee or charge to the insured or producer or business entity for processing a cancellation.

#### **E) Felony Convictions (ref. 5/500-95)** (0-1 Question out of 22 Total)

An individual who, while licensed as an insurance producer, is convicted of a felony **must report the conviction to the Director within 30 days after the entry date of the judgment.** Within that 30 day period, the individual must also provide the Director with a copy of the judgment, the probation or commitment order, and any other relevant documents.

#### **F) Disclosure (Ref. 5/500-75)** (0-1 Question out of 22 Total)

**Any policy solicited by a licensed producer must identify the name of the producer, representative or firm.** An individual life or accident and health application and a master (Group) policy *application must bear the name and signature of the licensee who solicited and wrote the application.*

## **G) Marketing Practices** (4-6 Questions out of 22 Total)

**1) Unfair Claims Practices (Ref. 5/154.5; 5/154.6; Reg 919)** - Specific improper claims practices for insurance companies include:

- 1.) Activity which results in **excessive valid complaints** made to the Department of Insurance.
- 2.) **Not having or acting upon reasonable standards** for fast investigation and settlement of claims.
- 3.) **Not acting in good faith to make settlement** when liability is reasonable clear.
- 4.) **Purposefully misrepresenting important policy coverage** and provisions to claimants or insureds.
- 5.) **Failing to acknowledge important communications** regarding claims in a timely manner.
- 6.) **Forcing policyholders to file lawsuits to recover** because a company made offers far too low compared to the amount that was actually received as a result of the lawsuit.
- 7.) **Failing to provide required claim forms** and proper instructions as to their completion.
- 8.) The **failure on the part of a company to identify the contractual reason for denial** of a claim.
- 9.) Activity on the part of a company which results in an **excessive number of lawsuits to be filed** against it.
- 10.) **Refusing claims without conducting a reasonable investigation** utilizing all available information.
- 11.) **Failing to provide a detailed explanation** referring a payment made to the appropriate coverage.
- 12.) **Making a claimant duplicate efforts in the claim verification process** in an effort to delay investigation of a claim.
- 13.) **Failure to deny or affirm coverage within a reasonable time** after a proof of loss has been filed.

**REGULATION 919** is designed to help the Director determine which insurance companies operating in Illinois should be examined based on their business practices. The frequency of hearings can be based on many criteria including complaint volume ratios, randomly, specialty markets and claims handling procedures. **REG 919 also compels carriers to maintain detailed claims records retrievable for the current year AND the previous two years.**

Every carrier must give notice of availability informing the consumer making them aware of the Division of Insurance.

“Prompt Investigation” after notice of a loss by an insured is **21 days** for the company to communicate with all insureds when liability is reasonably clear.

"Reasonable Promptness" means a maximum of **15 days** from receipt of communication from a claimant or insured.

Required practices for all insurance companies demands that the company must affirm or deny claims liability and offer payment **within 30 days after affirming liability**, if the claimed amount is not disputed. The company must tender payment for nondisputed claims amounts within 30 days. Disputed amounts must be explained by the company and notify insureds of claims denials within 30 days.

REG 919 says that life claims require a carrier to search records for all other possible policies that may be carried on that life as well as search under any and all other names by which the deceased person may have been known. **If claims are unresolved for 45 days the company must give reasonable written explanation for the delay.**

**2) Rebating (ref.5/151; 5/152; 5/153)** is illegal and occurs when a producer **offers anything of value to a prospect as an inducement to place insurance business with that producer.** Essentially it means to bribe someone to get their insurance business. Any producer convicted of rebating will lose all commission otherwise earned and payable for any policies sold where a rebate was involved and their producer license is subject to suspension, revocation or denial in addition to a possible fine. (Class B misdemeanor).

Guilt of producer rebating is *not held against a carrier or general agent unless they were aware of the rebating by the producer.* Anyone participating in a hearing for producer rebating is immune from prosecution and cannot use self-incrimination as a defense and the only offence that could be used against such a participant is perjury occurring as a result of the rebate hearing.

The prohibition against providing any inducement beyond the insurance coverage is so broad it even extends to any offer, promise, give, option, sell purchase any stocks, bonds, securities or property or any dividends or profits accruing thereon. Rebating does not include policy dividends paid to a policyholder on a mutual policy. **Also the rebate law DOES ALLOW an insurance company to offer a child passenger restraint system or a discount from the purchase price of a child passenger restraint system to policyholders** when the purpose of such restraint systems is the safety of a child and compliance with the "Child Passenger Protections Act."

**It is also illegal for an insurance applicant to accept a rebate in exchange for a policy purchase.** The purchaser is entitled ONLY to what they get through the policy itself.

**3) Misrepresentation (Ref. 5/149;5/154)** occurs **when a producer makes Misleading comparisons** between what a prospect owns and what the producer is trying to sell. Such an inducement to switch companies is called "**Twisting**" when a misleading statement is made which results in the business changing hands to the new company that the producer is representing. Another **example of misrepresentation is making any statements that the Federal or State governments or agencies approve, guarantee or otherwise endorse your company or products when that is not the case (governments never endorse the products of one insurance company over the products of another).**

The media of communication subject to this Code includes written, verbal and via radio (regardless of the manner of communication) and the ***fine for misrepresentation is payment of a penalty of no less than \$200 nor more than \$10,000,*** recoverable and paid into the county in which the State Attorney completed successful prosecution.

*No company or person may advertise or prospect for sales leads in Illinois unless they are authorized (licensed) in this state to transact insurance business.*

**4) Defamation (Ref.5/149)** occurs when a **producer, while in the act of soliciting** or trying to procure business on behalf of one company, **intentionally provides untrue information** about the business practices of another company, or their representatives, designed to place the producer (who is making the untrue statements) and his company in a more favorable light. Any **untrue statements which unfairly damage the business reputation of another company or their representatives are strictly prohibited.** **The fine for guilty parties is a minimum of \$200 and a maximum of \$10,000.**

**5) Other Unfair Practices (Ref. 5/424)**

- **Discrimination** between individuals of the same type risk due to race, color religion, or national origin.
- **Falsifying records**, misrepresenting company assets or general financial condition
- **Restraint of trade** agreements which lead to monopoly are prohibited.
- **Passing a greater premium** cost to an insured solely **because of a physical handicap**.
- *Making or charging any rate for auto insurance which requires a higher premium of any person by reason of physical handicap, race, color, religion or national origin.*



**Material relating to laws and regulations pertaining to ALL Lines of insurance now ends. The above material will help you answer 22 questions on any state law portion insurance examination for any line of authority.**

**At this time, refer to Illinois Law that is SPECIFIC TO THE LINE FOR which you seek a license. You must master line specific law material as well since additional questions will be posed from these areas.**

**The ADDITIONAL line specific law includes:**

- **Life Insurance (9 Questions)**
- **Accident and Health Insurance (14 Questions)**
- **Property Insurance (8 Questions)**
- **Casual ty Insurance (15 Questions)**

**PLEASE NOTE THAT ALL OF THE REFERENCES ABOVE REFER TO THE ACTUAL NUMBER OF EXAM QUESTIONS THAT WILL BE SCORED ON A STATE INSURANCE EXAM ADMINISTERED BY THE EXAM CONTRACTEE OF THE STATE OF ILLINOIS AND DO NOT INCLUDE PRETEST QUESTIONS.**

## General Law Quick Reference – Time Periods & Dollar Amounts

### Insurance Director – Hearings, Orders and Fines

<b>Cease and Desist Order – notice served 20-30 days before hearing date</b>	<b>Violation of final Cease &amp; Desist Order \$5,000 Max; \$100 per day</b>	<b>Cease/Desist Final Order specific to Unfair Competition - fine \$1,000 Max</b>
<b>Failure to Obey Subpoena or refuse to testify after service of Subpoena- \$2,000 Max</b>	<b>Market Conduct Exam –request hearing within 10 days of receipt of report</b>	<b>Market Conduct Exam- Dir. must issue written order within 90 days of hearing or report file date</b>
<b>Sec 402 Exam (Independent Personnel) – Dir. Must give at least 10 days hearing notice.</b>	<b>Exam of Producer – must request hearing within 14 days of receipt of copy of report</b>	<b>Producer Exam written order violation– Max of \$20,000 also applies to those who aid or abets</b>

### **REFER TO PAGE 9 FOR LIST OF LICENSE FEES – KNOW LIST!**

#### License Renewal Periods

<b>Resident –Biannual Renewal (2 yrs)</b>	<b>Business Entity –Renewal (2 yrs)</b>	<b>Temp Prod License to sell– 90 days</b>
<b>Temp Prod License in the case of death or incapacity -180 days</b>	<b>Up to 12 Months to Reinstate a Lapsed Producer License</b>	<b>Resident LTD Lines – Renew 1 year Non-Res LTD Lines – Renew 2 yrs</b>

**Bond Requirements (Brokering Business) - \$2,500 or 5% previous year premium, which ever is greater**

**CE REQUIREMENT – 30 Hours Biannually, No SINGLE Course more than 15 Hours**

**Change of Address Notice: Producer’s Residence– 30 DAYS; Business Entity – 30 days**

#### License Suspension, Revocation or Denial

<b>Once Dir. Takes action, Producer has 30 days to request, in writing, a hearing</b>	<b>Once hearing requested, Dir. Must make hearing date within 20-30 days of mailing hearing notice to Prod.</b>
<b>Civil Penalty for S/R/D is \$10,000 per cause and \$100,000 Max for all Causes for order violation</b>	<b>Once Prod has S/R/D of license they may not apply for license again for at least 3 years</b>

#### Producer Fiduciary Duties Violations

<b>Improperly Holding client funds = more than 15 days</b>	<b>Steal less than \$150 it is a Misdemeanor</b>
<b>Steal less than \$150 twice or more or more than \$150 one time and it is a Class 3 or 4 Felony, Respectively</b>	<b>Must deliver a policy within 90 days of offer when first premium still needs to be collected by producer</b>

#### Premium Fund Trust Accounts

<b>If hold premiums for 15 days or more must have PFTA</b>	<b>Must Balance PFTA at least every 30 days</b>
<b>Must keep PFTA books &amp; records for 7 yrs minimum</b>	<b>Must credit insured account for refunds w/in 15 days</b>

#### Commissions and Compensation

<b>IF Service fee exceeds 10% of policy premium then agreement must be written &amp; signed by both parties</b>
<b>IF Policy is canceled within 90 days, prorated refund of service fee must be made within 30 days</b>

**Felony Conviction of Producer must be reported to DIR. W/in 30 days of Judgment of Conviction**

#### REGULATION 919

<b>Prompt Investigation = 21 days</b>	<b>When Liability is affirmed must offer payment within 30 days</b>
<b>Reasonable Promptness = 15 days</b>	<b>If claim is not resolved must write W/in 45 days and explain to insured</b>

**Fine for Misrepresentation or Defamation by producer is MIN of \$200 and MAX of \$10,000**

## **II) ILLINOIS INSURANCE LAW: LIFE SPECIFIC CONTENT** (9 QUESTIONS)

### **A) ADVERTISING AND SALES (Ref. REG 909)** (2-3 Questions)

**The Sales Promotion And Advertising Of Life Insurance** - There is no substitute for common sense!

● Materials subject to the Act are visual aids, policy jackets, sales kits, letters, personal presentation or other media-any method designed to convey information to the insurance consumer about product. Includes any material designed to create public interest in life insurance or annuities to induce the public to purchase, increase, modify or reinstate a policy. Must be especially careful when marketing to people 65 years of age or older where any material may deceive or imply federal or state endorsement.

● *Specifically excluded are materials/communications used within an insurance organization and not intended for viewing and distribution to the public*; communications with policyholders that do not urge purchase, increase, modification or reinstatement or retention of a policy; general announcements about group or blanket coverage that is preliminary to issuance and explains the coverage.

■ **KEY IS >>> Fair disclosure** - of all facts relevant to the purchase of Life Insurance must be made. This is designed to *let prospect make "informed decision."*

- The producer *must be careful in using to use words "investment," "expansion," "profit" or "savings plan"* in conjunction with marketing Life Insurance, anything which may mislead or deceive.
- Anything conveyed that misleads purchaser that he or she is receiving anything other than the benefits to be received under the contract for life insurance.
- Cannot claim that only limited numbers of people are eligible for a plan unless it is related to underwriting practices.
- **Cannot state that dividends are guaranteed (dividends are only projections or estimates).**
- A **general rule of thumb is** that if the *statement made tries to cloud or obscure the fact that the purchase that is being considered is life insurance*, then there is probably a deceptive practice occurring.
- Any omission which would lead to deception or misleading the public is also prohibited.
- Any ads for *direct life marketing cannot imply that because there is no producer contacts that there is a cost savings unless such claim is factual.*
- **Testimonials and endorsements by third parties must be genuine.**
- Ads cannot state that enrollment periods are “special” or “limited” when the insurer uses successive enrollments periods as its usual method of policy marketing. Enrollment period must be at least six months apart.
- ***Preneed funeral contract ads must disclose if a life insurance policy is involved***; Nature of relationships among producer, the provider of funeral merchandise and services, administrators or any other persons. Representatives of the deceased must be told that *there is a right to change the choice of the preneed provider (funeral home/director)*. If policy proceeds exceed funeral costs then the excess must be paid to a secondary beneficiary and this must be disclosed in a preneed ad.
- ***No ad shall imply that any federal or state agency approves or endorses any producer or company.***

**Copies of all advertising must be kept on record for 4 years or until next due date of an insurers examination report, whichever is longer.**

## **B) REPLACEMENT (Ref. REG 917) (1-2Questions)**

**1) Purpose of Replacement Regulations Of Life Insurance-** When replacement of one policy for another is being considered, *regulations imposed are for the protection of the insured* so that he can make an informed decision to buy or keep, which is *in his best interest based on full and clear information which is factual and not misleading*.

**2) Replacement is defined as:** any transaction where it is known that as a part of that transaction, any existing life insurance will be:

- Lapsed, forfeited, surrendered or otherwise terminated.
- Converted to a nonforfeiture benefit or in some way reduced in value.
- Be converted so that a loss of benefit or time in force occurs.
- Pledged or borrow more than 25% of cash value from one or more existing policies .
- Re-issued with any reduction in the cash value.

### **3) Exemptions to Replacement Regulation:**

**The following policy types are not subject to the replacement rules:**

- credit life
- group life & group annuities
- Life policies issued in connection with pension, profit-sharing or other benefit plan qualifying for the tax deductibility of premiums
- variable life, but the appropriate prospectus must be given to the applicant
- nonconvertible term expiring in five years or less & which cannot be renewed
- cash surrender of existing policy is less than \$500 and policy(s) face amount is less than \$5,000.

**4) Duties of Agent** - When replacement is involved each producer shall submit to the replacing insurer with or as part of each application for life or annuity:

- A signed statement by the applicant as to whether or not replacement is involved
- A signed statement by the producer as to whether or not the producer knows replacement is involved.

### **5) Duties of Insurance Companies (When replacement is involved)**

- The carrier must require that the producer with each application for life or annuity shall signed a statement as to whether or not replacement is involved:
- Where replacement is involved the replacing insurer shall require that producer submit a copy of the signed **form called "Notice Regarding Replacement of Life Insurance or Annuity"** with the application submitted.
- **Company must make sure agents are complying properly with the replacement law and providing "Buyer's Guide" to applicants.**
- Company must **forward, within 3 working days, the "Notice..."** from to the other company.
- Replacing insurers must **keep replacement notices on file for 3 years.**

## **C) Life Solicitation Rules (Ref. REG 930) (1-2 Questions)**

**1) Purpose of Life Solicitation Rule** – is to protect consumers by making life insurers deliver information which will *enable the prospective buyer to be more educated and knowledgeable as to the "best" plan/coverage under consideration* (especially when replacement is involved). This rule is supposed to improve the buyer's chances for better evaluation of cost differences between plans and companies.

### **2) Definitions**

● **Buyers Guide** – is **one of two required documents given to life applicants** (the **other required document is the "policy summary"**). The **Buyer's Guide** explains the differences between various policy types and explains how to understand cost indices.

● **Cash Dividends** – A cash dividend is the current illustrated dividend which can be applied toward gross premium payments.

● **Equivalent Level Annual Dividend** - These are projections of dividend payments which can be illustrated to ten or twenty years and allow consumers to make valid comparisons of dividend projections from one company to another.

● **Life Insurance Surrender Cost Index** - This index is useful if you consider the level of the cash values to be of primary importance to you. It helps you compare costs if at some future point in time, such as 10 or 20 years, if you were to surrender the policy and take its cash value.

● **Life Insurance Net Payment Cost Index** - This index is useful if your main concern is the benefits that are to be paid at your death and if the level of cash values is of secondary importance to you. It helps you compare costs at some future point in time, such as 10 or 20 years, if you continue paying premiums on your policy and do not take its cash value.

● **Policy Summary This writing statements describes the elements of the policy and includes:**

- Prominently placed: "STATEMENT OF POLICY COST AND BENEFIT INFORMATION"
- Name and address of producer or other party to whom inquiries can be made.
- Full name and address of carrier home office.
- Generic name of the base policy and each rider.
- A premium and benefit illustration for the first five years then a clear pattern to age followed by a year from age 60, to age 65 or maturity, whichever is earlier.
- The policy summary shows all premiums, benefit and rider amounts (including dividend projections at least to the 20th year with a statement that dividends are no guaranteed) as well as policy loan annual rates of interest.
- The date upon which the policy summary was prepared.

**3) Exemptions** – **The solicitation regulation does not apply to these policies:**

- Credit Life ● Annuities ● Franchise life ● Group life insurance
- Variable life insurance ● ERISA type pension plan and welfare plans

**4) Disclosure Requirements - Both a Buyer's Guide to Life Insurance AND a Policy Summary must be delivered to an applicant.**

- A Buyer's Guide must be supplied to an applicant prior to accepting the applicant's initial premium (except for direct response insurance products).
- In insurer must supply a Buyer's Guide and a Policy Summary to any prospective purchaser upon request.
- The Buyer's Guide must be delivered with a direct response policy or prior to delivery of a direct response policy.
- A Policy Summary must be delivered with or prior to delivery regardless whether an agent solicited policy or a direct response policy.

**KEY IDEA >>> A Buyer's Guide must be given to applicant when taking money and BEFORE a policy is delivered (except for a direct response policy) while a Policy Summary can be supplied as late as Policy Delivery.**

**5) Agents' Responsibilities**

An *agent shall inform* the prospective purchaser, *prior to commencing a life insurance sales presentation*, that he is *acting as a life insurance agent and inform* the prospective purchaser of the *full name of the insurance company which he is representing* to the buyer. In sales situations in which an agent is not involved, the insurer shall identify its full name.

**6) Suitability in the Sale of Life Insurance (Ref. REG 3120, 909, 3117)**

● **Advertisements** shall be truthful and not misleading in fact or by implication. The form and content of an advertisement shall be sufficiently complete and clear so as to avoid deception. It shall not have the capacity or tendency to mislead or deceive. Whether an advertisement has the capacity or tendency to mislead or deceive shall be determined by the Director of Insurance from the overall impression that the advertisement may be reasonably expected to create upon a person of average education or intelligence within the segment of the public to which it is directed.

● **Annuities**. In recommending to a consumer the purchase of an annuity or the exchange of an annuity that results in another insurance transaction or series of insurance transactions, the **insurance producer, or the insurer** where no producer is involved, shall have reasonable grounds for believing that the recommendation is suitable for the consumer on the basis of the facts disclosed by the consumer as to his or her investments and other insurance products and as to his or her financial situation and needs.

Prior to selling an annuity, the producer or insurer must ask the consumer questions designed to understand the consumer's financial status including ● The consumer's tax status; ● The consumer's investment objectives; and ● other information used or considered to be reasonable in making recommendations. The insurance producer or insurer HAS NO OBLIGATION to a consumer related to any recommendation if a consumer: ● Refuses to provide relevant information requested by the insurer or insurance producer; ● Decides to enter into an insurance transaction that is not based on a recommendation of the insurer or insurance producer; or ● Fails to provide complete or accurate information.

An insurer or insurance producer's recommendation shall be reasonable under all the circumstances actually known to the insurer or insurance producer at the time of the recommendation.

● **Variable Life.** *No recommendation* shall be made by an insurance producer or insurer where no producer is involved, to an applicant to purchase a variable life insurance policy *unless it has been determined that the applicant is suitable for the product sale being solicited.* *Suitability for a variable life sale is based on the applicant's age, insurance and investment objectives, financial situation, needs and tax status, and any other information known to the insurer or producer* making the recommendation. Compliance with the National Association of Securities, Dealers Conduct Rules (NASD) is part of the regulation since *producers who market variable life products must have the appropriate securities license in addition to a state insurance producer license.*

#### **D) Accelerated Benefits (Ref. 5/2; REG 1497) (1-2 Questions)**

Under Illinois law up to 75% of a death benefit can be paid in advance of the death of the insured, if the insured suffers from a terminal illness (normally defined as death expected to occur within either 12 or 24 months, as defined in the rider) or a qualifying covered condition. If the policy contains this coverage then the term "accelerated benefit" must be used in the descriptive title of the policy. This is not applicable to a long term care product or as providing long term care benefits.

"Covered condition" as used in the Insurance Code means: heart attack, stroke, coronary artery surgery, life threatening cancer, renal failure, Alzheimer's disease, paraplegia, major organ transplantation, total and permanent disability, and any other medical condition that the Department may approve for any particular filing.

#### **Other facts to know about Accelerated Benefits:**

- The remaining death benefit cannot be reduced by any more than the accelerated benefit amount.
- *Renewability and cost must be guaranteed* for the term of the policy or rider.
- All policy forms must be submitted for review to the department of insurance.
- Benefits for accelerated benefits/**terminal illness** can not be combined in one policy or rider with benefits for accelerated benefits/**covered condition coverage**.
- Before payments will be made, medical evidence as to conditions can be required and insurers can order their own medical exams.
- Accelerated benefits can be paid in a single lump sum, payment in installments or any other form to which both parties agree.
- If the insured is not the policyholder or there is an irrevocable beneficiary involved, then the policyholder and/or the irrevocable beneficiary must give written permission to an accelerated transaction.
- The *insurer shall disclose to the policyowner any administrative expense charge*. The insurer must make a reasonable effort to assure policy owner is aware of any administrative expense charge if the policy owner is required to pay the charge. *The administrative expense charge may not exceed \$250.*
- Generally *accelerated benefits are income tax free* (treated like a death benefit). It is always recommended to inform an applicant that they should consult with their tax advisor prior to purchasing an accelerated benefit product.
- The *consumer gets a 30 day free look* with an accelerated benefits policy *when purchased as a direct marketing product*

## **E) Illustrations Ref. REG 1406) (1-2 Questions)**

The purpose of this regulation is to *provide standards for both individual and group life insurance policy illustrations that will protect consumers and foster consumer education*. No company or producer may show guaranteed and nonguaranteed benefits as a single sum; *guaranteed and nonguaranteed benefits must be displayed and labeled separately*. Time value of money does not have to be accounted for if there is a statement pointing out that a dollar in the future is worth less than it is today.

### **■ Required Disclosure Provisions for Life Insurance Product Illustrations :**

- Any *premium charge, must be disclosed numerically* and an illustration given to the applicant.
- Producers *must give illustrations to the applicant prior to, or along with the application*.
- If the *purchase is via direct mail solicitation, the illustration must be provided when the policy is delivered*.
- A written disclosure including a brief description of the accelerated benefit and conditions under which it is paid as well as effects on death benefit and cash value, must be provided by a producer at application time. In a **direct mail** situation, the disclosure form goes with policy delivery and a **30 day free look** applies.
- Disclosure, at the time of application and again upon submitting for actual payment, *that the accelerated benefit may be taxable and the applicant should seek the advice of a qualified tax advisor*.
- *When acceleration is requested, disclosure must be provided to a policyholder or an irrevocable beneficiary which shows the effect the accelerated benefit will have on the policy cash value, face amount, death benefit, premium, policy loans and policy liens*.

*An illustration used in the sale of an individual or group life insurance policy shall clearly be labeled "Life Insurance Illustration" and contain the following basic information:*

- Name of insurer;
- Name and business address of insurance producer or insurer's authorized representative, if any;
- Name, age and sex of proposed insured, except where a composite illustration is permitted
- Underwriting or rating classification upon which the illustration is based;
- Generic name of policy, the insurer product name, if different, and form number;
- Initial death benefit; and
- Dividend option election or application of non-guaranteed elements, if applicable.

### **This illustration regulation does not apply to the following product types:**

- Variable life insurance;
- Individual and group annuity contracts
- Credit life insurance
- Life insurance policies and certificates with *guaranteed scheduled death benefits of \$10,000 or less or illustrated death benefits less than \$15,000*

## F) Viatical Settlements (Ref. 158) (0-1 Question)

*This law covers individuals or companies that purchase the life insurance coverage of insureds who suffer from catastrophic illness (those who are terminally ill who will usually die within two years or less from the date of the sale of the policy). **The policy is purchased at a price that is lower than the face amount of the insurance policy and the person selling their life policy usually does not have an accelerated benefit clause in their life contract.***

A “**Viatical Settlement Provider**” (**party who buys the contract from an insured**) must be licensed to transact such business in Illinois and must pay an initial \$3,000 license fee and must renew each year at the fee of \$1,500. Providers can have their license revoked if they engage in illegal or unethical conduct as specified by law (*i.e., guilty of fraudulent or dishonest practices, misrepresentation in the application for the license, licensee demonstrates a pattern of unreasonable or untimely payments to policyowners or the licensee has been convicted of a felony or any misdemeanor of which criminal fraud is an element*)

“**Viaticated policy**” means a life insurance policy held by a viatical settlement provider, directly or indirectly, through a viatical settlement contract.

“**Viator**” means a *person who owns a life insurance policy, or who owns or is covered under a group policy*, insuring the life of a person with a catastrophic or life threatening illness or condition who enters into an agreement under which the viatical settlement *provider will pay compensation or anything of value, which compensation or value is less than the expected death benefit of the insurance policy* or certificate, in return for the viator's assignment, transfer, sale, devise, or bequest of the death benefit or ownership of the insurance policy or certificate to the viatical settlement provider. *Before a provider may buy a policy a doctor must certify that the viator is of sound mind, under no undue influence and the documentation of the sale must be properly witnessed.*

A Viator has **30 days from the date of signing a contract and 15 days form receiving the funds to rescind** (stop the deal, give back the money and get his policy returned) the deal. The **Settlement provider must make certain disclosures to the Viator** prior to signing including suggesting the Viator contact their insurance agent for advice, that settlements may be fully taxable, that settlements may be attachable by creditor’s of the Viator, and that their policy may have an accelerated benefit therefore consulting the insurer first is advised.

A viatical settlement provider *may not sell, assign, transfer, or pledge a viaticated policy except to another licensed viatical settlement provider* or a person not required to be licensed. An insurance company licensed in this State shall not accept the assignment of a life insurance policy from a viatical settlement provider not licensed in this State and shall immediately notify the Director of any such attempted transaction.

## G) Unfair Practices (Ref. 5/236) (0-1 Question)

**Discrimination prohibited.** *No life company doing business in this State shall:*

- *Discriminate* in favor of individuals **among insured persons of the same class** and equal expectation
- *Make or permit any distinction or discrimination against individuals with handicaps or disabilities in the amount of payment of premiums or rates charged for policies of life insurance*, in the amount of any dividends or death benefits payable thereon, or in any other terms and conditions of the contract it makes **unless the rate differential is based on sound actuarial principles.**
- Refuse to insure, or refuse to continue to insure, or limit the amount or extent or kind of coverage available to an individual, or charge an individual a different rate for the same coverage **solely because of blindness or partial blindness.**
- Refuse to insure or to continue to insure an **individual solely because of the individual's status as a member of the United States Air Force, Army, Coast Guard, Marines, or Navy or solely because of the individual's status as a member of the National Guard or Armed Forces Reserve.**
- Not make a distinction or otherwise discriminate between persons, reject an applicant, cancel a policy, or demand or require a higher rate of premium for reasons **based solely upon an applicant's or insured's past lawful travel experiences or future lawful travel plans.** However it is not prohibited for an insurer or producer from excluding or limiting coverage under a policy or refusing to offer the policy based upon past lawful travel or future lawful travel plans or from charging a different rate for that coverage **when that action is based upon sound actuarial principles or is related to actual or reasonably expected experience and is not based solely on the destination's inclusion on the United States Department of State's travel warning list.**

## H) Life and Health Guarantee Association (Ref. 5/531.01 - 5/531.19) (0-1 Question)

**This is set up to make certain that claims will be paid in the event financial insolvency (bankruptcy) strikes an insurance company.** This law applies to the failure in the performance of contractual obligations, under life or health insurance policies, annuity contracts and health or medical care service contracts. All admitted/licensed companies in Illinois agree to help pay off the claims to policy holders who have purchased a contract with an insurer who becomes insolvent.

**This association applies to most Life and Health contracts but DOES NOT apply to:**

- 1) Burial Life policies, Fraternal Benefit Society or Mutual Benefit Society
- 2) HMO's – Health Maintenance Organizations (which has its own separate Guaranty Association)
- 3) Limited Health Services Organizations such as Dental Service Plans, Vision Service Plans or Drug Service Plans
- 4) Variable Life contracts, specifically that portion NOT guaranteed by an insurance company.

**Coverage amounts and restrictions to those amounts (regardless of the number of policies owned) are:**

- **\$300,000 in life insurance death benefits** but **not more than \$100,000 in net cash surrender** and net cash withdrawal values for life insurance;
- **\$300,000 in health insurance benefits**, including any net cash surrender and net cash withdrawal values.
- **\$100,000 in the present value of annuity benefits** (includes net cash surrender and withdrawal values).

*This Association is created as a non-profit legal entity and ALL member insurers are and must remain members of the Association as a condition of their authority to transact insurance in Illinois*

*The Director must board of directors notify the of the existence of an impaired or insolvent insurer not later than 3 days after a determination of impairment or insolvency is made or when the Director receives notice of impairment or insolvency.* The Director must also serve notice to an impaired insurer. Further the Director can terminate the license of any member company who does not pay Association assessments in a timely fashion as prescribed by law.

***KEY>>** No agent or company may use the existence of the Association for the purpose of a solicitation or sale of insurance by use of any media whatsoever (can't tell or advertise to a prospect that they need not worry if the insurer goes broke that the Association will make good on their policy).*

*The Association shall prepare a summary document describing the general purposes and current limitations of Association. This document shall be delivered to the policy or contract holder prior to or at the time of delivery of the policy or contract. The document should also be available upon request by a policyholder. The distribution, delivery, or contents or interpretation of this document shall not mean that either the policy or the contract or the holder thereof would be covered in the event of the impairment or insolvency of a member insurer. Failure to receive this document does not give the policyholder, contract holder, certificate holder, or insured any greater rights than those stated in law*

**This summary document shall contain a clear and conspicuous disclaimer on its face.** The disclaimer shall:

- (1) State the name and address of the Life and Health Insurance Guaranty Association and of the Department.
- (2) *Prominently warn the policy or contract holder that the Life and Health Insurance Guaranty Association may not cover the policy* or, if coverage is available, it will be subject to substantial limitations and exclusions and conditioned on continued residence in the State.
- (3) *State that the insurer and its agents are prohibited by law from using the existence of the Life and Health Insurance Guaranty Association for the purpose of sales, solicitation, or inducement to purchase any form of insurance*
- (4) Emphasize that *the policy or contract holder should not rely on coverage under the Life and Health Insurance Guaranty Association* when selecting an insurer.

**TEST TAKING SUGGESTIONS follow on the next page. Be sure to check them out!**

## **PEARSON VUE TEST TAKING SUGGESTIONS >>>> KEYS TO SUCCESS!**

Remember the simple rules that follow and apply them to any multiple choice test.

- 1) **RELAX!** Once you arrive at the test center take time to get familiar with the equipment.
- 2) **LET YOUR MIND ADJUST** to taking a test. Since you likely do not take tests every day during the course of your employment, you must use a basic strategy that has been time tested for its success.

### **LET THE TEST (AND TIMING) BEGIN WITH A THREE "ROUND" APPROACH:**

**ROUND 1) ANSWER ALL THE EASY ONES FIRST.** IF YOU ARE NOT POSITIVE YOU ARE RIGHT, SKIP IT AND COME BACK TO IT IN ROUND

**ROUND 2).** READ EACH QUESTION THAT YOU SKIPPED THE FIRST TIME AND ANSWER ONLY IF YOU ARE CERTAIN TO FAIRLY SURE THAT YOU KNOW THE CORRECT ANSWER AND SKIP ANY THAT SEEM DIFFICULT.

**ROUND 3)** ALL THE QUESTIONS THAT YOU SKIPPED TWICE REMAIN. THE GOAL IS TO DO THE BEST YOU CAN. BY NARROWING EACH REMAINING QUESTION TO ONE OR TWO ANSWERS AND THEN AND GO WITH YOUR BEST INTUITION. GUESS IF YOU MUST AND USE THE SAME LETTER CHOICE WHEN PURELY GUESSING (ALWAYS USE "B" FOR INSTANCE).

### **BY USING THE ABOVE THREE "ROUND PROCESS, YOU WILL ACCOMPLISH THE FOLLOWING OBJECTIVES:**

- 1) YOU WILL GET ALL THE EASY ONES RIGHT AND BUILD ALL IMPORTANT CONFIDENCE IN THE EARLY MINUTES OF THE TEST; AND
- 2) YOU ARE REVIEWING THE ENTIRE TEST AS YOU GO THROUGH ROUND ONE. THIS OFTEN HELPS YOU ANSWER QUESTIONS LATER WHICH WERE SKIPPED THE FIRST TIME.
- 3) EVERY ANSWER YOU KNEW IS "IN THE BANK" AND IF YOU RUN SHORT OF TIME LATER IT WILL BE ON THE TOUGH ONES YOU SKIPPED TWICE.

USING THE METHOD DESCRIBED ABOVE WILL ENABLE YOU TO AVOID THE FOLLOWING CLASSIC THREE TEST TRAPS

- 1) SPENDING TOO MUCH TIME EARLY IN A TEST ON A QUESTION YOU CANNOT HOPE TO ANSWER CORRECTLY AT THAT POINT. THE MIND MUST BE "WARMED UP" NOT UNLIKE STRETCHING PRIOR TO VIFOROUS EXERCISE.
- 2) NOT UNDERSTANDING WHAT YOU ARE READING. IF A QUESTION SEEMS HARD, JUST SKIP IT AND READ IT AGAIN LATER. IT WILL SURPRISE YOU HOW EASY SOME WILL SEEM THE SECOND TIME AROUND.
- 3) **IF YOU ARE DONE WITH YOU TEST -STOP AND GET OUT OF THE TEST CENTER!** PEOPLE WHO ARE DONE, STILL HAVE TIME REMAINING AND THEN DECIDE TO REDO QUESTIONS THAT HAVE ALREADY BEEN ANSWERED SHOULD SERVE JAIL TIME. **IT IS SIMPLY THE SINGLE GREATEST TEST TAKING ERROR YOU CAN MAKE.**

FINALLY, LEAVE THE NEGATIVE/BAD ATTITUDE AT HOME. IF YOU GO TO A TEST WITH THE EXPECTATION OF FAILURE YOU PROBABLY WILL FAIL. ON THE OTHER HAND, IF YOU HAVE A POSITIVE OUTLOOK AND KNOW YOU HAVE PREPARED WELL, NO SET OF QUESTIONS CAN STOP YOU FROM SUCCEEDING. GOOD LUCK AND HAVE A GREAT INSURANCE CAREER.

**SINCERELY YOURS, DOUG DOHRN SR., PRESIDENT, DOHRN INSURANCE TRAINING, INC**