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## Addendum: for use with Michigan Personal Lines online ExamFX courses and study guide version 25695en per exam content outline updates effective 10/18/2021.

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The following are **content additions** to supplement your existing text unless otherwise indicated:

### General Insurance

#### B. Concepts

##### Reinsurance

**Reinsurance** is a contract under which one insurance company (the reinsurer) indemnifies another insurance company for part or all of its liabilities. The purpose of reinsurance is to protect insurers against catastrophic losses. The originating company that procures insurance on itself from another insurer is called the *ceding insurer* (because it cedes, or gives, the risk to the reinsurer). The other insurer is called the *assuming insurer*, or reinsurer.

When reinsurance is purchased on a specific policy, it is classified as *facultative reinsurance*. When an insurer has an automatic reinsurance agreement between itself and the reinsurer in which the reinsurer is bound to accept all risks ceded to it, it is classified as a reinsurance treaty. Treaties are usually negotiated for a period of a year or longer.

#### C. Insurers

##### Marketing (Distribution) Systems

With the exception of a small amount of insurance sold through the mail, insurance companies are represented by agents. Most agents are independent contractors, but they may also be employees of the general agency or insurer. The following are marketing arrangements used by insurers:

- **Independent Agency System/American Agency System** - An independent agent represents several companies and is appointed on a non-exclusive basis. An independent agent earns commissions on personal sales and overrides of other agents, and owns the expirations of their policies allowing them to place the renewal business with any company they represent.
- **Exclusive Agency System/Captive Agents** - The agent represents only one insurer and is appointed on an exclusive basis. The captive agent earns commissions on personal sales and overrides of other agents. Business is owned by the insurer and the insured is a customer of the insurer. Therefore, renewals are placed with the insurer only.

- **General Agency System** - A general agent is an entrepreneur, empowered by the insurer that he or she represents on an exclusive basis to sell insurance in a specified territory and to appoint subagents. The general agent may receive compensation for office expenses, advertising and staffing, and will receive commissions on personal sales and overrides on his agents.
- **Managerial System** - A sales force is supervised by a branch manager who, in contrast to the general agent, is a salaried employee of the insurer. The agents assigned to the branch office can be employees of the insurer or independent contractors.
- **Direct Response Marketing System** - A company which advertises its insurance through the mail, internet, television, or through other mass marketing techniques and requires the applicant to complete the application and return it directly to the insurer by mail or online, therefore bypassing the agent, is a direct response marketing system. Telephone solicitors that use agents to complete the transaction and may pay a commission to the agents are also considered Direct Response Marketers.

## Property and Casualty Insurance Basics

### Damages

A tort may result in two forms of injury to another: bodily injury and property damage. In the case of property damage, the extent of the loss is usually simple to determine; it is measured by the actual monetary loss the injured party suffered, which is measured by the value of the property damaged or destroyed and the loss of use of that asset.

In the case of bodily injury, it is more difficult to determine the loss monetarily. Bodily injury may lead to claims by the injured party not only for medical expenses and lost wages, but also for disfigurement, pain and suffering, mental anguish, and loss of consortium. The two classes of compensatory damages that may be awarded are special and general damages. Special damages are specific out-of-pocket expenses for medical, miscellaneous expenses, and loss of wages. General damages compensate the injured person for pain and suffering, mental anguish, disfigurement, and other similar types of losses. (Determination of the amount of general damages is highly subjective and can amount to whatever a judge or jury feels is "right.") A third class is a punitive damage, which is a form of punishment for extreme outrageous behavior, gross negligence or willful intent.

## E. Michigan Laws, Regulations, and Required Provisions

### Insurance Claims Handling

An insurer's **failure to pay a claim promptly is an unfair trade practice**. Such failure will result in an interest rate of 12% per year. Insurers must let claimants know what constitutes a satisfactory proof of loss within 30 days of receipt of the claim. Benefits must be paid within 60 days of receiving satisfactory proof of loss.

In Michigan, the following claim settlement practices are recognized as **unfair trade practices**:

- Misrepresenting pertinent facts or insurance policy provisions relating to coverage;
- Failing to promptly and reasonably acknowledge and respond to communications regarding claims;
- Failing to adopt and implement reasonable standards for the prompt investigation of claims;
- Refusing to pay claims without conducting a reasonable investigation;
- Failing to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed;
- Failing to attempt in good faith to effectuate prompt, fair, and equitable settlements of claims in which liability is reasonably clear;
- Forcing insureds to file lawsuits to receive benefits due by offering substantially less than the amounts due under the insurance policy;
- Attempting to settle a claim for less than benefits a reasonable person would expect based on advertisements;
- Attempting to settle claims based on an application that was altered without notice to or consent of the insured;
- Making a claims payment that does not explain the coverage under which each payment is being made;
- Telling claimants there is a policy of appealing arbitration awards solely to compel them to accept settlements less than the amount awarded in arbitration;
- Delaying the investigation or payment of claims by requiring claimants to submit a preliminary claim report, then to submit subsequent forms that require essentially the same information;
- Failing to settle claims where liability is clear under one portion of coverage in order to influence settlements under other portions of coverage; and
- Failing to promptly provide a reasonable explanation for the denial of a claim or for the offer of a compromise settlement.

Failure of an insurer to maintain complete records of every complaint received between examinations by the Commissioner is an unfair trade practice. Records must include the total number of complaints, their classification by line of insurance, the nature of the complaints, and how and when the complaints were resolved.

## **Auto Insurance**

### **B. Laws**

#### **1. Michigan Motor Vehicle Financial Responsibility Law**

##### **Required Limits of Liability – *addition to the existing text***

In addition to having motor vehicle insurance as required under Michigan law, individuals who drive for **transportation network companies**, such as Uber or Lyft, must meet the following coverage requirements:

- While logged on to the company's network and available for ride requests, but **not currently engaged in a ride** — residual third-party automobile liability insurance coverage of at least \$50,000 per person for death or bodily injury, \$100,000 per incident for death or bodily injury, and \$25,000 for property damage; and
- While **currently engaged in a ride** — residual third-party automobile liability insurance with a minimum combined single limit of \$1,000,000 for all bodily injury or property damage.

## Insurance Regulation

### D. Unfair Trade Practices and Other Regulations

#### 5. Illegal Inducement – *additions to the existing text*

Any person — an insurer, agent, or other person — who violates the Insurance Code statutes on rebating and illegal inducement is guilty of a **misdemeanor**.

If an insurer or an agent has made any **misrepresentation or incomplete comparison** of policies for the purpose of inducing someone to purchase or replace an insurance policy, upon conviction, the offender will be sentenced to pay a fine of up to **\$2,000** per violation, or in the discretion of the court, to imprisonment in the county jail.

If a person has violated other statutes pertaining to rebates and illegal inducement, the person will be sentenced to pay a fine of up to \$100 per violation, or in the discretion of the court, to imprisonment in the county jail. In addition, the person's license or certificate of authority will be revoked and cannot be reissued for 1 year from the date of revocation.

#### 7. Defamation – *additions to the existing text*

Civil actions may be brought for libel or slander as acts of defamation. Libel is any written or printed untrue statement that injures a person's or company's reputation. Slander is any verbal untrue statement that injures a person's or company's reputation. An action for libel or slander may not be brought based upon a communication involving public officials unless the claim is sustained by clear proof that the defamatory falsehood was published with knowledge that it was false or with reckless disregard of whether or not it was false.

#### 12. Consumer Privacy Regulation – *additions to the existing text:*

In addition, a licensee is not required to provide the notice and opt out requirements for nonpublic personal financial information if the licensee is an employee, agent, or other representative of a principal and all of the following conditions are met:

- The principal is another licensee;
- The principal otherwise complies with and provides the required notices; and
- The licensee does not disclose any nonpublic personal information to any person other than the principal or its affiliates.

**Consumer** means an individual, or the individual's legal representative, who seeks to obtain, obtains, or has obtained an insurance product or service from a licensee that is to be used primarily for personal, family, or household purposes. **Customer** means a consumer who has a customer relationship with a licensee.

**Nonpublic personal financial information** means personally identifiable financial information and any list, description, or other grouping of consumers and publicly available information pertaining to them that is derived using any personally identifiable financial information that is not publicly available. Nonpublic personal financial information does not include any of the following:

- Health and medical information otherwise protected by state or federal law;
- Publicly available information; or
- Any list, description, or other grouping of consumers and publicly available information pertaining to them that is derived without using any personally identifiable financial information that is not publicly available.

**Personally identifiable financial information** means any of the following information:

- Provided by a consumer to a licensee to obtain an insurance product;
- About a consumer resulting from any transaction involving an insurance product;
- Obtained by the licensee about a consumer in connection with providing an insurance product or service to that consumer.

The Michigan Administrative Code outlines the rules that establish the **standards for safeguarding customer financial information**. Each licensee is required to implement a **comprehensive written information security program** that includes administrative, technical, and physical safeguards for protecting the security, confidentiality, and integrity of customer information. The safeguards included in the program must be appropriate to the size and complexity of the licensee and the nature and scope of its activities.

A licensee information security program must be designed to do the following:

- Ensure the security and confidentiality of customer information;
- Protect against any anticipated threats or hazards to the security or integrity of the information; and
- Protect against unauthorized access to or use of the information that could result in substantial harm or inconvenience to any customer.

Any violation of this regulation is an unfair method of competition or an unfair or deceptive act and practice in the conduct of the business of insurance in this state.