

Test Alert!

Arizona

Life, Accident, and Health Insurance

License Exam Manual

8/22/07

L&H

The information included in this release, in addition to your other Kaplan Financial materials, is designed to assist you in preparing for concepts that your exam may include. We urge you to read it carefully and take time to review the sample questions and rationale.

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On page ix, insert the following content in the Introduction before the section “Preparing for the Exam”:

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On page 218, insert the following content before “I. Basic Definitions”:

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On page 225, insert the following content before “5. Licensing exemptions [Sec. 20-283]”:

- c. A business entity insurance producer must have at least one insurance producer individually licensed for the appropriate lines of authority in each office or place of business.

On page 227, substitute the following for the content in paragraph “2.” of “D. MANAGING GENERAL AGENT LICENSING [SECS. 20-311, 311.01, 289]”:

- 2. A managing general agent’s license expires on the last day of the month of the licensee’s birthday, but no less than three years and no more than four years after the last day of the month in which the license is issued or is required to be renewed. _

On page 227, substitute the following for the content in paragraph “2.” of “E. LICENSE ISSUANCE AND RENEWAL [SECS. 20-286, 289]:”

2. An individual licensee expires on the last day of the month of the licensee’s birthday, but no less than three years and no more than four years after the last day of the month in which the license is issued or is required to be renewed. The licensee of a business entity expires on the last day of the same month four years after the issuance or renewal due date of the license.

On page 228, insert the following content before “G. NONRESIDENT LICENSES [SECS. 20-285, 287, 300]”:

4. A licensee whose expiring license period is at least one year but no more than two years must complete at least 20 credit hours of approved insurance continuing education.

On page 229, substitute the following for the content in “TEMPORARY LICENSES [SEC. 20-294]”:

1. In special circumstances, the Director may issue temporary licenses without requiring an examination. Individuals who are eligible for a temporary license include:
 - the surviving spouse or court-appointed personal representative of a licensed insurance producer who has died or become mentally or physically disabled (if necessary for winding up or continuing the business);
 - a member or employee of a business entity licensed as an insurance producer upon the death or disability of the designated producer; and
 - the designee of a licensed insurance producer entering active service in the United States armed forces.
2. Temporary licenses are generally valid for 180 days.

On page 231, insert the following new content at the bottom of the page:

P. SURPLUS LINES BROKERS [SECS. 20-407, 411]

1. **Surplus lines insurance** Insurance coverage may be procured from unauthorized insurers if:
 - the insurance is procured through a surplus lines broker who is licensed in Arizona;
 - the insurance coverage cannot be obtained from authorized insurers after diligent effort, or the coverage has been obtained to the full extent the insurers are willing to insure; and

- placing the insurance with an unauthorized insurer is not for the purpose of obtaining advantages in the premium rate or terms of the contract.
2. **Compensation** An insurance producer or managing general agent may pay a fee or share a commission with a surplus lines broker who obtains surplus coverage on behalf of the insurance producer. A surplus lines broker may not receive a fee or commission from any person who is not licensed in Arizona as an insurance producer, managing general agent, or surplus lines broker.
 3. **Licensing** A person may act as a surplus lines broker in Arizona only if the person has a current surplus lines broker license issued by the Director.
 - a. Any person who is an Arizona resident and who is licensed as a resident insurance producer authorized for property or casualty insurance may also be licensed as a resident surplus lines broker if the Director determines that the producer is competent and trustworthy.
 - b. An individual applicant for an original license as a resident surplus lines broker or for renewal of a resident surplus lines broker license who has not previously passed a surplus lines broker license examination in Arizona must pass a written examination. The examination will test the applicant's knowledge of surplus lines insurance and the legal responsibilities of a surplus lines broker.
 - c. A surplus lines broker license is subject to the same renewal requirements as a producer's license.

On page 235, insert the following content before "8. Unfair sex discrimination [R20-6-209]":

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- d. **Domestic violence [Sec. 20-448(G)]** An insurer may not discriminate against an insured or proposed insured solely because the insured or proposed insured has been a victim of domestic violence.
 - 1.) An insurer may refuse to issue a life insurance policy insuring a person who has been the victim of domestic violence if the family or household member who commits the domestic violence is the applicant for or prospective owner of the policy or would be the beneficiary of the policy, and:
 - the applicant or prospective beneficiary of the policy is known to have committed an act of domestic violence;
 - the insurer knows of an arrest or conviction for a domestic violence-related offense by the family or household member; or
 - the insurer has other reasonable grounds to believe that the applicant or proposed beneficiary is a family or household member committing acts of domestic violence.

- 2.) An insurer that offers life or disability insurance may underwrite coverage on the basis of an insured's or proposed insured's mental or physical condition if the underwriting:
 - does not consider whether the mental or physical condition was caused by an act of domestic violence; and
 - is the same for an insured or proposed insured who is not the victim of domestic violence as it is for an insured or proposed insured who is the victim of domestic violence.
- 3.) Insurers must adopt written policies to ensure the privacy of and to help protect the safety of a victim of domestic violence when taking any action relating to a policy or claim. Insurers must distribute the written policies to employees, contractors, producers, agents and brokers who have access to personal or privileged information regarding domestic violence.

On page 240, insert the following content before "V. FEDERAL REGULATIONS":

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3. **Penalties [Secs. 20-2117, 2118]** In case of a knowing violation of the information privacy rules, the Director may, in addition to issuing a cease and desist order, impose a civil penalty of \$500 for each violation, but no more than a total of \$10,000 for multiple violations.
 - a. If a person violates a cease and desist order issued under the privacy rules, the Director may:
 - impose a civil penalty of up to \$10,000 for each violation, and up to \$50,000 if the violations constitute a general business practice; and
 - suspend or revoke an insurance institution's or agent's license.
 - b. **Private remedies** If an insurer or insurance producer violates the privacy rules, the person whose rights are violated may sue in court for appropriate equitable relief and damages. The court may also award the cost of the action and reasonable attorney fees to the prevailing party.
 - 1.) An action under this section must be brought within two years from the date the violation is or should have been discovered.

On page 242, insert the following content before "D. CAN-SPAM ACT [SB 877]":

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4. **National do-not-call list [Sec. 44-1282]** It is generally illegal to make a telephone solicitation to any telephone number in Arizona that is on the national do-not-call registry established by the Federal Trade Commission. A civil penalty of \$1,000 may be imposed for each violation.

On page 243, insert the following content at the bottom of the page:

c. Application and consent [Sec. 20-1107]

1.) General rule An individual life or health insurance policy cannot be issued unless the insured has legal capacity to make a contract and either applies for the insurance or consents to it. This rule does not apply to group or blanket coverage.

2.) Exceptions

a.) A spouse can take out insurance on the other spouse.

b.) Any person who has an insurable interest in the life of a minor, or any person upon whom a minor depends for support and maintenance, can take out insurance on the minor's life.

On page 249, insert the following content before "VII. ACCIDENT AND HEALTH INSURANCE":

G. SUITABILITY IN ANNUITY SALES [SECS. 20-1243, 1243.01-1243.06]

1. Application of rules These rules apply to any recommendation to purchase or exchange an annuity that is made to a consumer by an insurance producer, or by an insurer if no producer is involved, and that results in the recommended purchase or exchange. *Annuity* means any fixed or variable annuity that is individually solicited, whether it is an individual or a group annuity.

a. Exemptions These rules do not apply to recommendations involving:

- direct response solicitations if there is no recommendation based on information collected from the consumer; or
- annuities used to fund certain employee benefit plans, settlements associated with personal injury litigation or any claim resolution process, or formal prepaid funeral contracts.

2. Duties of insurers and producers In recommending the purchase or exchange of an annuity, an insurance producer (or the insurer if no producer is involved) must have reasonable grounds for believing that the recommendation is suitable for the consumer on the basis of the consumer's investments, other insurance products, financial situation, and needs.

a. Before executing a purchase or exchange of an annuity resulting from a recommendation, a producer or insurer must make reasonable efforts to obtain information concerning:

- the consumer's financial status, tax status, and investment objectives; and

- any other information considered to be reasonable by the producer or insurer in making a recommendation to the consumer.
- b. A producer or insurer generally has no obligation to a consumer related to a recommendation if the consumer:
- refuses to provide the information requested by the insurer or producer;
 - decides to enter into an insurance transaction that is not based on a recommendation of the insurer or producer; or
 - fails to provide complete or accurate information.

Even in this case, however, a recommendation must be reasonable under all of the circumstances actually known by the insurer or producer at the time of the recommendation.

3. **Supervision requirements** Insurers must maintain a supervisory system that is reasonably designed to achieve compliance with these rules. This includes maintaining written procedures and conducting periodic reviews of records to detect and prevent violations.
- a. Compliance with National Association of Securities Dealers (NASD) conduct rules pertaining to suitability satisfies the requirements of these rules for the recommendation of variable annuities.
4. **Corrective action** The Director may order an insurer, producer, or managing general agent to take corrective action for any consumer who is harmed by a violation of these rules. The Director may also reduce or eliminate any applicable penalty if corrective action for the consumer was taken promptly after a violation was discovered.
5. **Recordkeeping** Insurers and producers must maintain records of the information used in making recommendations for at least five years or until their next regular examination, whichever is later. Insurers can maintain documentation on behalf of their producers.

On page 250, add the following content to “4. Guaranteed issue [Sec. 20-1379]”:

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- a. **Eligible persons** Eligible persons under the guaranteed issue requirement include people who have had at least 18 months of creditable coverage under another health plan, such as an employee group health plan, or who have exhausted their continuation coverage under COBRA. The previous coverage must not have been terminated because of fraud or nonpayment of premium.

On page 253, substitute the following content for paragraph “a.” under “Eligible groups [Sec. 20-1401]”:

- a. Employer groups must insure at least two eligible employees.

On page 254, insert the following content before “6. Disclosure forms [Sec. 20-2323]”:

- d. **Order of benefit determination** These rules determine the order of benefits when a claim is payable under more than one plan and all of the plans have coordination of benefits provisions.
 - 1.) The benefits of a plan that covers the person claiming benefits other than as a dependent are determined before the benefits under a plan that covers the person as a dependent.
 - 2.) The benefits of a plan of a parent whose birthday occurs earlier in a calendar year will cover a dependent child before the benefits of a plan of a parent whose birthday occurs later in a calendar year.
 - 3.) If two or more plans cover a dependent child of divorced or separated parents, benefits for the child are determined:
 - first, under the plan of the parent with custody of the child;
 - then, under the plan of the spouse of the parent with custody of the child; and
 - finally, under the plan of the parent not having custody of the child.

On page 272, substitute the following for the content in “d. Nonforfeiture benefit.”:

- d. **Nonforfeiture benefit** A long-term care insurance policy may not be issued in Arizona unless the policyholder or certificate holder has been offered the option of purchasing a nonforfeiture benefit. If the policyholder or certificate holder declines the nonforfeiture benefit, the insurer must provide a contingent benefit on lapse that is available for a specified time after a substantial increase in premium rates.
 - 1.) The **nonforfeiture benefit** is a shortened benefit period that provides paid-up long-term care insurance coverage after lapse. The same benefits (amounts and frequency) in effect at the time of lapse are payable for a qualifying claim, but the lifetime maximum dollars or days of benefits will be adjusted.
 - 2.) The standard nonforfeiture credit equals 100% of the sum of all premiums paid. Nonforfeiture credits may be used for any care and services that qualify for benefits under the policy or certificate. The minimum nonforfeiture credit must be at least 30 times the daily nursing home benefit at the time of lapse.

- 3.) The nonforfeiture benefit generally must begin no later than the end of the third year following the policy or certificate issue date. For a policy or certificate with attained age rating, however, the nonforfeiture benefit must begin on the earlier of:
- the end of the tenth year following the issue date; or
 - the end of the second year following the date the policy or certificate is no longer subject to attained age rating.

On page 273, insert the following content before “9. Preexisting conditions [Secs. 20-169(11), 1691,03(D), (G), (H); R20-6-1011]”:

- 2.) Before issuing long-term care coverage that is not guaranteed issue to an applicant age 80 or older, the insurer must obtain:
- a report of a physical examination;
 - an assessment of functional capacity;
 - an attending physician’s statement; or
 - copies of medical records.

On page 274, substitute the following content for paragraph “b” under “12. Incontestability period [Secs. 20-1691.07, .10]”:

- b. After a policy has been in effect for two years, it cannot be rescinded or a claim denied even if material misrepresentation occurred, unless the insured knowingly and intentionally misrepresented facts about the insured’s health.

On page 277, insert the following new content following the content in “20. Penalties [Sec. 20-1691.09]”:

- 21. Suitability [R20-6-1018]** Every insurer or other person marketing long-term care insurance, including insurance producers and managing general agents, must:
- develop and use suitability standards to determine whether the purchase or replacement of long-term care insurance is appropriate for the applicant’s needs;
 - train its insurance producers in the use of its suitability standards; and
 - maintain a copy of its suitability standards and make them available for inspection upon the Director’s request.
- a. To determine whether long-term care insurance is suitable, a producer and insurer must consider:
- the applicant’s ability to pay for the proposed coverage and other pertinent financial information related to the purchase of the coverage;

- the applicant's goals or needs concerning long-term care and the advantages and disadvantages of insurance to meet them; and
 - the values, benefits, and costs of any existing insurance, compared with the values, benefits, and costs of the recommended purchase or replacement.
- b. An insurer or producer must make reasonable efforts to obtain the required information, including giving the applicant the prescribed *Long-Term Care Insurance Personal Worksheet* to complete before or at the time of application. An insurer or producer cannot consider an applicant for coverage before receiving the applicant's completed personal worksheet, except that the personal worksheet is not required for sales of employer group long-term care insurance.
 - c. When giving an applicant a personal worksheet, the insurer or producer must also provide the applicant with a disclosure form entitled *Things You Should Know Before You Buy Long-Term Care Insurance*.
 - d. If the insurer or producer determines that the applicant does not meet the suitability standards, or if the applicant declines to provide information, the insurer or producer must either reject the application or send the applicant a long-term care suitability letter. The letter states that the policy will not be issued unless the applicant returns a signed copy of the letter acknowledging that the policy may not be suitable but requesting the policy to be issued anyway.
 - e. If the applicant declines to provide financial information, the insurer or producer may use some other method to verify the applicant's intent to purchase the policy. Either the applicant's returned suitability letter or a record of the alternative method of verification must be retained as part of the applicant's file.

D. WORKERS' COMPENSATION [SECS. 23-901, 901.01, 1021]

1. **Eligibility** Most public and private employees in Arizona are eligible for workers' compensation benefits for employment-related injuries and illnesses.
 - a. **Occupational diseases** The Arizona workers' compensation program provides benefits for occupational diseases. Occupational diseases are ones that result from conditions that are characteristic of a particular trade or occupation and not the ordinary diseases to which the general public is exposed. An occupational disease is considered to arise out of employment if:
 - there is a direct connection between the conditions under which the work is performed and the occupational disease; and

- the disease does not come from a hazard to which workers would have been equally exposed outside of their jobs.

2. Benefits The workers' compensation program pays benefits, including medical expenses, to covered employees who are injured by accidents arising in the course of their employment. It also pays benefits, including funeral expenses, to the dependents of employees who die from workplace accidents.

- a. An employee's injury or death is not covered by workers' compensation if it results from the use of alcohol or the unlawful use of a controlled substance, unless the employer knew about and condoned the employee's usage. Purposely self-inflicted injuries are also not covered.

Part II

New Sample Questions

On page 280, substitute the following questions for questions 20 and 21:

20. An insurance producer must notify the Director of any change of address within
- A. 10 days
 - B. 20 days
 - C. 30 days
 - D. 60 days
21. A producer who wishes to renew his current resident license must complete how many credit hours of approved continuing education courses every 4 years?
- A. 10
 - B. 25
 - C. 30
 - D. 40

Part III

Answers and Rationales

On page 284, the correct answer to question 21 is D.

Part IV
Errata

There are no errata at this time.

To submit comments or suggestions, please send an email to errata@kaplan.com.

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