

# *Test Alert!*

## Michigan Life, Accident, and Health Insurance License Exam Manual

8/20/07

# 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.

Be sure to visit Kaplan Financial's Website at [www.kaplanfinancial.com](http://www.kaplanfinancial.com) for the latest updates to this *Test Alert!*

**KAPLAN** FINANCIAL

## Part I

### Changes to the Text

---

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

---

#### **IMPORTANT: CHECK FOR UPDATES**

Exam publishers sometimes change topics on the exam unexpectedly or on short notice. To see if we have issued an update for this product to accommodate a change in the exam, please go to [www.kaplanfinancial.com](http://www.kaplanfinancial.com), where you will see a heading for *TestAlerts!* Click on *View Insurance TestAlerts!* to see a list of updates we have issued for our license exam manuals. Then, click on your state to see a link to a portable document file that you can download to study with your license exam manual. (If you do not see a *TestAlert!* listed for your state, we have not issued one.) We suggest you check now, sometime during your study period, when you’ve completed your study, and one last time just before you take your exam.

On Page 218, insert the content above before “I. Michigan Laws and Regulations Pertinent to Life and Health Insurance.”

---

On Page 224, replace “d. Adjuster” with the following content:

---

- d. Adjuster [500.1222, .1224]** Anyone who adjusts losses or damage under an insurance policy issued in Michigan must be licensed as an insurance adjuster. A license is not required of lawyers or licensed agents adjusting losses or damage under a policy within his control or to a marine average adjuster.

Applicants for adjuster licenses must take a written examination. The Commissioner may investigate their qualifications, residence, business affiliations, and other matters that the Commissioner believes would help ensure the protection of the public. The examination requirement may be waived if the applicant has been licensed as an adjuster within the last 12 months. The Commissioner must accept or deny an application within 60 days of receiving it.

An applicant must demonstrate a reasonable understanding of the insurance coverage with which he will deal, a reasonable understanding of the state’s insurance laws, intend in good faith to act as an adjuster, and have a good business reputation and moral character.

- e. Limited License [Rule 501.157]** The Commissioner may issue a limited license to an agent who will only transact certain lines of insurance. The agent may not transact insurance for other lines.

- f. **Business Entity [500.1201, .1205]** A business entity that acts as an insurance producer must have a license to do so. The Commissioner will grant a license only if the business entity has:
- paid the required fees;
  - designated a licensed producer to be responsible for the entity's compliance with state insurance laws, rules, and regulations; and
  - committed any act that would be grounds for denying, suspending, or revoking the license.
- g. **Financial Institutions [500.1243]** A lending institution may be licensed as an insurance agency, acquire ownership in an agency, or otherwise become affiliated with an agency. As such, it may thus be licensed to sell insurance.

On Page 230, add the following content before “6. Brokerage business” and renumber subsequent paragraphs:

---

6. **Reporting of actions [500.1208b, .1239]** An insurer that terminates a producer's employment or appointment must notify the Commissioner within 30 days of the termination, if the producer violated the insurance laws. This cancels the producer's appointment with the insurer but does not cancel the producer's license with the state. Within 15 days of notifying the Commissioner, the insurer must notify the producer in writing. The producer has 30 days to respond to this notice.
- a. **Confidentiality [500.1246]** Any reports of violations are considered confidential and are not subject to access through the Freedom of Information Act, subpoena, or discovery in litigation.
- b. **Administrative Actions [500.1247]** A producer who is subject to an administrative action or criminal prosecution in another jurisdiction must notify the Commissioner within 30 days of the final disposition of the matter.
7. **Acting without a license [500.251, .1201a]** The Commissioner may issue a cease and desist order upon finding that:
- a person or business entity is transacting insurance without a license or certificate of authority; or
  - a licensee's conduct presents an immediate danger to public health, safety, or welfare.
- a. **Cease and desist order** A person who is subject to a cease and desist order may request a hearing before the Commissioner within 30 days of receiving the order. The Commissioner must hold the hearing within 10 days of the request. The issue must be resolved within five days of the hearing.

- b. Penalties** A person who violates a cease and desist order is subject to:
- payment of a civil fine of no more than \$1,000 for each violation, up to a total of \$30,000. If the person knew or should have known that his conduct violated the order, he is subject to a fine of no more than \$25,000 for each violation, up to a total of \$250,000;
  - suspension or revocation of the license or certificate of authority;
  - restitution to all persons who were damaged by the violation; or
  - a combination of one or more of the above penalties.

**8. Prohibited Conduct [500.1207]** Producers are fiduciaries for any money they receive or hold in their capacity as agents. Failure to give the money over to the person who is entitled to the money is evidence that the producer has breached this duty. A producer may not accept payment of a premium for a Medicare supplement policy in the form of a check or money order made payable to the producer instead of the insurer. When a producer receives payment of such a premium, he must immediately give a written receipt to the insured. Producers must use reasonable accounting methods to record funds they receive. These are subject to inspection by the Commissioner. In general, a producer cannot pay anyone for obtaining insurance business, providing leads or prospects, or acting as an agent for the producer.

On Page 236, replace “m. Consumer privacy” with the following content:

- 
- m. Consumer Privacy [500.501, .505, .515, .507, .4507, .4509]**  
The state protects the nonpublic personal financial information of individuals who buy, obtain, or make claims of insurance products or services for personal or family purposes from producers or insurers.
- 1.) Privacy notice** In general, a licensee must give a clear and conspicuous notice of its privacy practices and policies to any persons who become customers, at the time they establish this relationship. This notice is not required when the licensee limits disclosure of the financial information to his employer or its affiliates.
- a.)** The notice must specify the categories of nonpublic personal financial information that the licensee collects, as well as the categories of nonpublic personal financial information that the licensee discloses.
- 2.) Fraud investigation** If an authorized agency makes a written request to the insurer during an insurance fraud investigation, the insurer may release to the agency any information that is related to the suspected fraud. The insurer is immune to liability to the insured for releasing the information. This information may include:

- information about a policy, including the application;
- records of premium payments; and
- the insured's claim history.

On Page 238, insert the following content before “G. Credit Life and Credit Accident and Health”:

**o. USA PATRIOT Act [Pub. L. 107-56, 115 Stat. 272 (Oct. 26, 2001)]**

The USA Patriot Act (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism) grants the federal government expanded powers to curtail attempts to launder money and finance terrorist activities.

**1.) Key provisions** The following provisions are granted under the act:

- Stronger anti-money laundering provisions
- Broad enforcement discretion to government officials
- Guidance to US financial institutions
- Forfeiture of laundered assets
- Appropriate regulation across the financial services industry
- Stronger ability of financial institutions to maintain integrity of employees
- Requirement of reports of potential money-laundering transactions to authorities
- Prevention of use of US financial system for personal gain by corrupt non-US political figures and officials

**2.) Financial institutions subject to review** Almost all institutions in the financial services industry are subject to the act, such as banks, credit card issuers, credit unions, securities or commodities broker/dealers, insurers, investment banks and bankers, finance companies, dealers in precious metals or gems, gaming establishments, travel agencies, real estate agencies, and sellers of cars, boats, and airplanes.

**3.) Basic requirements** The act requires institutions in the financial services industry to develop a compliance program and training personnel to follow it. They must designate an anti-money laundering (AML) officer who maintains clear communications within the company for reports of suspicious or criminal activity. Companies must record and document their transactions, which are subject to audit.

**4.) Mandatory and voluntary disclosure [Sec. 314]** The act encourages financial institutions to share information with other financial institutions and federal law enforcement agencies to prevent terrorist attacks.

- a.) Law enforcement can request information about suspected money laundering and terrorist financing.
- b.) Financial institutions are to share information related to these activities.

**5.) Customer identification and verification [Sec. 326]** The act requires financial institutions to adopt procedures to verify the identity of a person who wants to open an account. A customer must be notified that the institution will check identification. An institution will obtain a customer's name, Social Security number, and address. It may also obtain a customer's birth date and phone number. Information about a person's identity is retained for five years after an account is closed. Information that verifies this identity is retained for five years after it is recorded.

a.) **Office of Foreign Assets Control (OFAC)** OFAC enforces economic sanctions against certain governments, terrorists, and drug traffickers

b.) **Financial Crimes Enforcement Network (FinCEN)**

FinCEN maintains a list of persons known to be or suspected to be dangerous, according to the FBI or other law enforcement agencies.

c.) **Penalties** Failure to comply with these requirements can result in criminal and civil liability:

- Criminal penalty of \$50,000 to \$10 million
- Imprisonment for 10 to 30 years
- Civil penalty of \$11,000 to \$1 million per violation

On Page 243, insert the following content after paragraph 2:

- 
- a. **Benefit illustrations for variable policies [Rule 500.863]** Insurers must illustrate benefits payable under variable life insurance policies. The illustrations cannot project past investment experience into the future or attempt to predict future investment experience.
  - b. **Use of hypothetical rates [Rule 500.863]** Insurers may use hypothetical assumed rates of return to illustrate possible benefits payable under variable life insurance policies, if the illustration clearly states that the assumed rates are only hypothetical.
  - c. **Life insurance policy cost comparison methods** The main purpose of any methods used to compare one life insurance policy with another is to guide the prospect to a competitively priced policy. There are two methods.

- 1.) **Interest-adjusted net cost method** This method considers time value of money by applying interest adjustment to annual premiums and dividends.
  - a.) Surrender cost index
  - b.) Net payment cost index
- 2.) **Comparison interest rate (CIR) method** This method sets the rate of return that must be earned on a side fund (term policy plus side fund) so that the value of the side fund will equal the surrender value of the higher premium (e.g. whole life) policy at a point in time.

On Page 252, insert the following content before “C. Medicare Supplement Insurance”:

- 
- B. Small employers [550.3701]** A small employer has employed between two to 50 persons who work 24 or more hours per week.
1. **Types of small employer plans**
    - a. **Deductible type** The family deductible is limited to no more than two individual deductibles. The coinsurance limit is set at 80/20 or at a limit more favorable to the employee.
    - b. **Co-payment type** Common co-payments are set at \$15 for outpatient physician services and home health care; \$50 for emergency room visits; and \$300 for inpatient hospital admissions. The insurer must cover at least 80% of the charges in excess of the co-payment amount.
  2. **Coverage requirements [500.3707]** A small employer insurer cannot sell health benefit plans with a waiting period that applies to new or late enrollees. It can require an affiliation period that must expire before coverage takes effect on new or late enrollees if:
    - the period is applied uniformly to all such employees;
    - the period is not longer than 60 days for new enrollees;
    - the period is not longer than 90 days for late enrollees;
    - the insurer does not charge premiums for the enrollees during the period; or
    - the coverage is not effective for the enrollee during the period.
  3. **Guaranteed renewability [500.3711]** A small employer insurer selling group health coverage must guarantee renewability of coverage for as long as the small employer or sole proprietor wishes.

## Part II

### Changes to Questions

---

There are no changes to questions at this time.

## Part III

### Changes to Answers and Rationales

---

There are no the changes to answers and rationales at this time.

Part IV  
Corrections

---

There are no corrections at this time.

To submit comments or suggestions, please send an email to [errata@kaplan.com](mailto:errata@kaplan.com).

**KAPLAN** FINANCIAL

[www.kaplanfinancial.com](http://www.kaplanfinancial.com)  
30 S. Wacker Drive, Ste. 2500, Chicago, IL 60606  
800-824-8742