



Chapter 2

Vocabulary

Stock Insurance Companies

- Stockholders own the company, (may or may not be policy holders)
- Profits/Dividends to stockholders
- Non-Participating Policies (policy holders do not receive dividends)

Mutual Insurance Companies

- No stockholders
- Policy owners own company, elect board of directors
- Participating policies
- Premiums generally slightly higher; but possible lower cost (due to dividends)
- Dividends to policy holders, not taxable (return of premium)
- May demutualize (convert to a stock company)

Lloyd's of London

- Not an insurance company
- A "place" where various member syndicates underwrite unusual risks
- Ex. Test pilot; actresses' legs; Race horses;

Reinsurers

- A process whereby one insurance company transfers a part of its risk to another company
- Designed to limit the company's amount at risk
- Company transferring risk is called the "ceding company"
- Company accepting the risk is called the "reinsurer"

Benefit Societies

- Organized under a special section of the insurance code
- Non-profit, lodge system, elected officers,
- Ex. knights of Columbus,

Home Service Insurers/Debit

- Sell industrial insurance (small premiums, collected on a weekly basis by agent, burial insurance)

Government

- **Medicare:** Federally administered
- **Social Security:** Federally administered
- **Medicaid:** State administered; Funded by states & feds.

How Insurance is Sold

- **Agents:** represent the company; agent & company are identical;
- **Broker:** represents the buyer
- Both must be appointed by the insurance company before selling

Career Agency System

- General Agent is appointed to geographical area
- General Agent can sell & train others, receives an over-ride
- Works for the company
- Recruits & trains agents

Personal Producing General Agent

- Usually does not recruit agents
- Works for herself
- Pays for own office, staff, etc;
- Usually specializing in financial planning (just a way to separate this from the one below)

Independent Agency System

- Works for themselves
- Sells anything to anybody

Direct Selling

- No agent involved
- Folks respond after T.V or radio ad & call a “call center”
- Also known as direct underwriters

More Need to know - Important

1945 McCarran-Ferguson Act

- Gave insurance regulation back to the states;

Securities & Exchange Commission

- Any Variable product is dually regulated. The SEC & the States regulate these

1970 Fair Credit Reporting Act

- Protects an individual’s right to privacy
- If a company fails to comply, they will be liable
- See Chapter 9 for full explanation

1999 Financial Services Modernization Act

- Broke or repealed the Glass-Steagall Act which prevented banks from engaging in insurance & insurance companies from engaging in banking
- Now, each cross-sell
- This act “broke” the glass

2001 USA Patriot Act

- Designed to prevent money laundering and curtail the financing of terrorism
- Responsibility of BOTH the agent & the company if suspicious of this activity

Domestic Insurance Company

- A company doing business in a state where they are incorporated

Foreign Insurance Company

- A company doing business in state OTHER than where they are incorporated

Alien Insurance Company

- An insurance company incorporated in another country

Continuing Education & Appointments

See your law chapters. Very Important

Buyers Guide & Policy Summary

- **Buyers Guide** – generic; explains in terms folks can understand, like differences between term & whole life or major medical & an HMO; like the small booklet in your glove compartment.
- **Policy Summary** – Specific; Cost indexes & comparison indexes. Like the large booklet in your glove compartment
- *See your law chapter for details on when these should be delivered. (Very Important)*

National Association of Insurance Commissioners (NAIC)

- Each state's commissioner is a member
- Develop guidelines & recommendations for states to follow
- States may or may not adopt these
- Developed the Advertising Code & the Unfair Trade Practices Act; all states adopted these, know them (see below)

Advertising Code -

- Specifies certain words & phrases that are considered misleading
- Requirements under this code are:
 - Full disclosure of policy renewal
 - Cancellation
 - Termination provisions
 - Use of testimonials, statistics etc.

Unfair Trade Practices Act – Gives the insurance commissioner or Chief Financial Officer

- The power to investigate
- Issue cease & desist orders
- Impose penalties
- The ability to seek court injunctions
- Examples are:
 - Misrepresentation;
 - False advertising
 - Coercion & intimidation
 - Unfair claim settlements

State Guarantee Associations

- All companies agree to participate as a condition to operate in the state
- Funded by insurance companies through assessments
- Guarantees that if a company become insolvent, the association will step in and pay the claims.
- Has limits on amount it covers
- Agents or producers cannot use this in advertising

Rating Services

- Guides to insurance companies' financial ability to pay claims
- AAA, A, A, B C; A++, A+, B++, B=, etc.
- A.M. Best; Standard & Poor; Moody's; Fitch