Insurance Pre-Licensing Exam Study Guide

Ethics Chapter 1

Ethics & Regulating Insurance

1 WHY INSURANCE IS REGULATED

Insurance is primarily regulated at the **STATE** level.

- Protects **CONSUMERS** from fraud, abuse & incompetence
- Promotes **FAIR COMPETITION** in the marketplace
- Ensures **financial stability** of insurers
- Sets standards for contracts, licensing & rates

Federal government intervenes **ONLY** when state regulation is **INADEQUATE**.

2 INSURANCE REGULATION TIMELINE

P — 1868 — **Paul v. Virginia**: Insurance is **NOT** interstate commerce → states regulate.

S — 1944 — **SEUA Case**: Overturned Paul v. VA → Insurance **IS** interstate commerce.

M — 1945 — **McCarran-Ferguson Act**: Public Law 15 → Reaffirmed **state** regulation; exempted insurance from most federal law.

★ MEMORY: P – S – M
Paul said NO (1868) → SEUA said YES (1944) → McCarran returned control to the states (1945)

3 CIC VS. CCR

CIC (Insurance Code)

- Insurance **LAWS**
- Passed by the **State Legislature**
- Primary body of insurance law
- Commissioner **CANNOT** change the law
- Governor signs or vetoes; takes effect in **30 days** if no action

CCR (Regulations)

- Rules that **ENFORCE** the laws
- Created by the **Insurance Commissioner**
- Detailed rules & procedures
- Commissioner **CAN** amend but **CANNOT** write new laws
- Changed via public hearing + OAL review

4 INSURANCE COMMISSIONER

- Elected by California voters (same election as Governor)
- Term Length: **4 years**
- 2× Term Limit: **Max 2 terms**
- Reports to: **Governor of California**
- Vacancy Filled By: **Governor appoints** (subject to legislative approval)

★ MEMORY: The 4 × 2 Rule
4-year term × max 2 terms = **8 years maximum** in office.

5 RATE REGULATION – THE 3 RULES (EID)

Rates must be **adequate** and must NOT be:

E	I	D
EXCESSIVE Cannot overcharge consumers	**INSUFFICIENT** Must cover losses & risk exposure	**DISCRIMINATORY** Risk-based factors OK; subsidizing groups is NOT

- ❌ Competition level is **NOT** a factor
- ✓ Commissioner **DOES** consider investment income

★ MEMORY: EID – Keep rates EID-Free!

6 ETHICS & UNETHICAL CONDUCT

ETHICAL VALUES – TRRCJC

T	Trustworthiness – honesty, integrity, loyalty
R	Respect – dignity, privacy, fairness
R	Responsibility – accountability, excellence
C	Caring – compassion, kindness, fairness
J	Justice & Fairness – impartiality, equality
C	Civic Virtue – follow laws, serve community

COMMON UNETHICAL ACTS

- ✗ Include discounts client doesn't qualify for
- ✗ Lower annual mileage to reduce premium
- ✗ Backdate policy & add coverage after claim filed
- ✗ Allow unlicensed employees to quote or bind
- ✗ Use false garaging address for lower rate
- ✗ Combine non-household members for lower rate
- ✗ Bind new policy for vehicle with known prior damage
- ✗ Call life insurance a "private pension" (ILLEGAL in CA)

EXAM ESSENTIALS (Top 9)

✓ McCarran-Ferguson = Public Law 15 (1945) ✓ CIC = Legislature; CCR = Commissioner (can't write new laws) ✓ Commissioner: elected, 4-year term, max 2 terms
✓ Rates: EID (not Excessive, Insufficient, or Discriminatory) ✓ Special duty of honesty to seniors 65+ ✓ Ethics goes beyond legal compliance
✓ Paul (1868) → SEUA (1944) → McCarran (1945) ✓ Put customer interests FIRST ✓ Calling life insurance a "private pension" = unethical & illegal in CA

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GLOSSARY – KEY TERMS

Term	Definition
Ethics	The "science of conduct" – right vs. wrong, studied for thousands of years.
Ethical Principles	Broad values guiding behavior (honesty, fairness, integrity, etc.).
Code of Ethics	A set of values & principles describing what is right.
Code of Conduct	Specific behavioral rules derived from ethical values (the "what").
CIC (Insurance Code)	California laws governing insurance; passed by the State Legislature.
CCR (CA Code of Regulations)	Rules created by the Commissioner to enforce the Insurance Code.
McCarran-Ferguson Act	Public Law 15 (1945) that reaffirmed state regulation of insurance.
NAIC	National Association of Insurance Commissioners; supports state regulation.
Unfair Discrimination	Charging different premiums without actuarial justification.
Rate Adequacy	Rates must be adequate to pay losses and expenses.
State Regulation	Oversight of insurance by the Dept. of Insurance (DOI) at the state level.
Federal Involvement	Occurs only when state regulation is inadequate.
Special Duty to Seniors	Heightened duty of honesty, fairness & care to clients age 65 and older.
Private Pension (Life Insurance)	Referring to life insurance as a "private pension" is unethical & illegal in CA.

⚠ DON'T GET BURNED ON THE EXAM

- ✗ Insurance is **REGULATED BY THE STATE**, not federal government.
- ✗ McCarran-Ferguson Act = **Public Law 15 (1945)**.
- ✗ CIC = passed by Legislature. Commissioner **CANNOT** change the law.
- ✗ CCR = created by Commissioner. Can amend but **CANNOT** write new laws.
- ✗ Commissioner is **ELECTED**, 4-year term, **MAX 2 TERMS**.
- ✗ Rates must be **ADEQUATE**, not **EXCESSIVE**, and not **UNFAIRLY DISCRIMINATORY**.
- ✗ Competition level is **NOT** a factor in rates. Investment income **IS** considered.
- ✗ Agents have a **SPECIAL DUTY** of honesty & fair dealing to seniors (65+).
- ✗ Ethics goes **BEYOND** what is merely legal.
- ✗ Calling life insurance a "private pension" is unethical **and** illegal.

MNEMONICS THAT STICK

P–S–M	**Paul** (1868) → **SEUA** (1944) → **McCarran** (1945)
EID	**E**xcessive • **I**nsufficient • **D**iscriminatory
4×2	4-year term × max 2 terms = **8 years max**
TRRCJC	Trustworthiness, Respect, Responsibility, Caring, Justice & Fairness, Civic Virtue
CBN	**C**ustomer first • **B**e honest • **N**ever trash-talk = "Can't Be Negotiated"

AGENT ETHICS – THE 10 RULES

1. Put the customer's **INTERESTS FIRST** – always.
2. Continue **professional education** – stay current.
3. Assess needs & recommend **SUITABLE** products – don't oversell.
4. Provide **ACCURATE, TRUTHFUL** presentations – disclose who you represent.
5. Use **CLEAR LANGUAGE** – avoid "full coverage," "unlimited," "best."
6. Maintain ongoing **COMMUNICATION** & periodic coverage reviews.
7. Secure **CUSTOMER INFORMATION** – physical & electronic safeguards.
8. Comply with all insurance **LAWS & REGULATIONS** – ignorance is no excuse.
9. Provide excellent **CLIENT SERVICE** – track life changes.
10. Never **BAD-MOUTH COMPETITORS** – compete on service, not criticism.

★ MEMORY: The Big 3 (CBN) – Customer first • Be honest • Never trash-talk = Can't Be Negotiated

Disclaimer: This study guide is a condensed overview of key concepts from this chapter. It is not a replacement for the full course material. Students should still read the full chapter and complete all course work, since important testable details may appear in the chapter but not in this guide.

Do the right thing. Always. Even when no one is watching.