

# CISR

# AGENCY OPERATIONS

## STUDY GUIDE

**EXAM PREP AND ANSWER KEY**

- **Knowledge Checks**
- **Check-Ins**
- **Self-Quizzes**
- **Sample Exam Questions**
- **Glossary of Terms**



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# CISR

# AGENCY OPERATIONS

## STUDY GUIDE

### EXAM PREP AND ANSWER KEY

This Study Guide has been prepared to enhance your learning experience. It contains all of the Check-In questions, Knowledge Checks, and Self-Quizzes contained within the course, along with an Answer Key and Glossary. Use it as a tool to help practice and assess your knowledge of the course material, but *do not* mistake it for a comprehensive "short-cut" to preparing for the final exam.

Be sure to take a look at the section, Appendix, that follows the Answer Key in this Study Guide. It contains valuable suggestions for test preparation and study techniques, as well as some sample exam questions and a glossary of terms.

Your path to success in passing the final exam will come from your attentiveness during the course and the effort you put into preparation.



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**Own your potential.**

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# **Tools to Assess Your Knowledge**

Check-Ins, Knowledge Checks,  
and Self-Quizzes by Topic



# Section 1: Ethical and Legal Requirements

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## What is Ethical Behavior?



### Knowledge Check



What does an agency gain by requiring their employees to behave ethically?

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# Ethical Issues

## ▶▶ Knowledge Check



Consider the scenario used at the beginning of this section:

During your training, you begin to notice that, on occasion, one of your fellow account managers, Alex, cuts corners. For example, after noticing that an insured forgot a signature on an application, Alex says, “Don’t worry about it—she’s been my client for years and I know she won’t mind me signing for her.” On another occasion, you observe Alex misrepresenting a garaging address on an application form and decide to point it out. “Oh, don’t worry,” Alex says, “This client is a friend of mine, and fudging the address will help him get a better premium. I’ve done it before, and I’ve never gotten in any trouble.”

**Directions:** Identify two examples of actions that Alex has taken which represent ethical breaches.

1. \_\_\_\_\_  
\_\_\_\_\_
2. \_\_\_\_\_  
\_\_\_\_\_

# Six Steps to Ethical Decision-Making



## Knowledge Check



Let's revisit, once again, the scenario presented at the beginning of this section:

During your training, you begin to notice that, on occasion, one of your fellow account managers, Alex, cuts corners. For example, after noticing that an insured forgot a signature on an application, Alex says, "Don't worry about it—she's been my client for years and I know she won't mind me signing for her." On another occasion, you observe Alex misrepresenting a garaging address on an application form and decide to point it out to him/her. "Oh, don't worry," Alex says, "This client is a friend of mine, and fudging the address will help him to get a better premium. I've done it before, and I've never gotten in any trouble."

**Directions:** Describe how you would use the **six steps to ethical decision-making** to address this ethical dilemma.

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# Legal Responsibility



## Knowledge Check



Consider the scenario from the beginning of this section one more time.

Recognizing that your fellow account manager, Alex, is not taking the care or consideration of performing all of his duties as expected, you now realize there might be legal ramifications following his behavior. Focus for a moment on the fact that Alex signed contract documents on behalf of his client, and consider the legal ramifications in answering the question below.

**Directions:** Explain how Alex's actions may impact each of the following legal criteria:

1. Peer Standards: \_\_\_\_\_  
\_\_\_\_\_
2. Contracts: \_\_\_\_\_  
\_\_\_\_\_
3. Statutes: \_\_\_\_\_  
\_\_\_\_\_

# Agents' Authority



## Knowledge Check



Victor works at an agency and will be participating in an insurance trade show representing Wildfire Insurance Company. Victor would like to have a booth that shows his company affiliation with Wildfire. Does Victor have the authority to put Wildfire's logo on his booth and, if so, what type of authority does this fall under?

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# The Standard of Care Agencies Owe to Their Customers and Insurance Companies

## ▶▶ Knowledge Check



You are meeting with a new client, Wanda, to collect the information needed for her commercial property policy application for her retail shop. During the course of the meeting, you become concerned that Wanda is not being fully forthright regarding her previous experience in this industry. Wanda wants to be placed with a preferred carrier whose underwriting guidelines require she have at least three years' of experience. Wanda states she has over 10 years of experience but is unwilling provide any documentation to support her claim. Your teammate and fellow account manager account manager, Cindy, urges you to place the business with the carrier anyway, reminding you that retail shops are a desired risk for this insurance company. Cindy also confides, "Wanda is a longtime personal friend of mine, and I can vouch for her character."

How would you respond in this scenario? Explain your answer, making sure to mention at least two of the standards of care agencies owe to insurance companies.

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## ▶▶ Knowledge Check



Consider the previous scenario in which you were pressured to place Wanda's retail business with a carrier despite not being certain that she meets the underwriting guidelines. You decided to tell Wanda that you need more proof of her industry experience before you can place her with her preferred carrier. Wanda becomes belligerent. "I have never been asked to provide this type of information before, so I don't see why I should have to now! I can't believe that you don't trust me!"

Explain to Wanda how you will employ the standards of care described earlier in this section to provide her with the best possible coverage for her business.

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## Licensing and Continuing Education Regulatory Requirements

### ▶▶ Knowledge Check



Let's revisit the previous scenario, in which you had to deal with a client (Wanda) who was upset, while still upholding the standards of care to both the customer and the insurance company.

How might continuing education prepare an insurance agent to effectively handle a complex risk if the customer's expectations differ from the insurance company's ability to write the risk? Explain your answer.

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## Section 1 Self-Quiz

**Directions:** Read each question below and select the one correct answer.

1. Limitations on how credit scoring is used in underwriting is an example of which one of the three topics concerning the benefits of ethical behavior?
  - ☐ Credibility
  - ☐ Government regulation
  - ☐ Public trust and confidence
2. Property values, protection class, other residents in the household, and rates based on classification or garaging address are all areas in which there may be \_\_\_\_\_ faced by insurance professionals.
  - ☐ peer standards
  - ☐ apparent authority
  - ☐ ethical issues
3. An agreement between two or more parties that creates an obligation to do or not do something is the definition of what term?
  - ☐ Statute
  - ☐ Contract
  - ☐ Peer standard
4. Micah is driving down the road in his Chevy and adheres to the neighborhood speed limit of 25 MPH. Doing so, Micah is following a \_\_\_\_\_.
  - ☐ statute
  - ☐ contract
  - ☐ peer standard

## Section 1: Ethical and Legal Requirements

**Directions:** Read each statement and select whether it is True or False.

1. When the agency helps the customer determine the appropriate amount of insurance to meet their needs, this is known as providing adequate coverage.

**True**

**False**

2. When someone is prevented from arguing something or asserting a right that contradicts what they previously said or agreed-to by law, this is known as estoppel.

**True**

**False**

3. When it comes to ethical decision-making, thinking about whether a problem has three potentially negative consequences means you are “seeking out resources.”

**True**

**False**

4. It's Friday afternoon, and Silas is just about to head home for the weekend when he realizes that he neglected to notify one of his customers about the non-renewal of her policy. Taking the time to pick up the phone to call the client immediately means that Silas is demonstrating “coverage placed in the best interest of the customer.”

**True**

**False**

## Section 2: Managing the Insurance Agency

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### The Insurance Agency

#### Check-In



**Directions:** Read each example and determine whether it is a SMART goal. If it is not a SMART goal, state why not.

1. Rebecca wants to increase her sales revenue by 12% by the end of next quarter.

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2. The customer service team wants to have 100% customer satisfaction on all surveys.

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3. Based on the agency's desired growth areas, Anthony wants to sign three new retail clients by the end of the calendar year.

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## Knowledge Check



Why is it important for an insurance agency to have values, vision, and mission statements?

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## Factors that Impact the Agency's Operations



## Knowledge Check



What are some factors that impact how the agency distributes its products and serves their customers?

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# Managing the Positions Within the Insurance Agency

## ▶▶ Knowledge Check



Your agency is seeking to hire a new personal lines account manager. Your manager shares the position description with you:

### Personal Lines Account Manager

Responsibilities:

- Answer phones and handle customer queries
- Sales duties as needed

Qualifications:

- Three years' experience, or equivalent combination of education and experience
- Must be friendly and personable

**Directions:** Considering the role of the account manager and what you learned about the position description, what feedback would you give your manager on what components are missing?

**Note:** You do not need to rewrite the position description; simply explain missing components that can be added to create a more complete position description.

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## Section 2 Self-Quiz

**Directions:** Read each statement and select whether it is True or False.

1. The vision statement reflects the agency's current and future goals, such as "serving and protecting local families and businesses with the best insurance policies at the right price."

**True**

**False**

2. Defining the heart of the organization, core priorities, and behavioral issues that matter most to the agency's management would describe the intent of the agency's mission statement.

**True**

**False**

3. Read the following goal: "Jensen Insurance Agency seeks to develop a client referral program by the third quarter of 2021." Adhering to the principles of SMART goal-setting, this reflects a goal that is time-based.

**True**

**False**

4. The agency's brand encompasses the behaviors and attitudes of the organization and its employees. It is the environment created by the agency for its employees.

**True**

**False**

5. Agencies that are small and have relatively few employees tend to have a vertical or tiered organizational structure.

**True**

**False**

## Section 2: Managing the Insurance Agency

**Directions:** Read each question below and select the correct answer.

1. Which one of the following questions is NOT among those the agency's management should be asking when determining what is needed to meet or exceed its goals?
  - ☐ What products will be sold?
  - ☐ How long has the agency been in business?
  - ☐ What is the source of the revenue?
  - ☐ What kind of space-planning is needed?
2. Carla is an insurance broker, but not an insurance agent. What does Carla not have the authority to do?
  - ☐ Act on behalf of the customer
  - ☐ Identify prospects
  - ☐ Authorize insurance transactions (bind coverage)
3. Transacting insurance, account rounding, and cross selling are all tasks performed by what position in the insurance agency?
  - ☐ Office manager
  - ☐ Account manager
  - ☐ New client business manager
4. What might an insurance agency be lacking if employees struggle to understand its vision and do not unite or adhere to a plan or direction?
  - ☐ Effective leadership
  - ☐ A sufficient number of employees
  - ☐ Experience in the industry

## Section 3: The Insurance Industry and Marketplace



# Section 3: The Insurance Industry and Marketplace

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## Industry Regulation



### Knowledge Check



**Directions:** Given the description, identify whether the ownership of the company is classified as a stock, mutual, or reciprocal company.

<b>A.</b> Stock Company	_____ Insurance Company Blue does not have stockholders, but instead is owned by the policyholders. At the end of each fiscal year, policyholders receive a dividend of any surplus profits.
<b>B.</b> Mutual Company	_____ Insurance Company Green is comprised of a group of subscribers who insure one another in commercial property insurance. The company is managed by an attorney-in-fact.
<b>C.</b> Reciprocal Company	_____ Insurance Company Red is owned by stockholders and run by a board of directors. Its goal is to make a profit each year, which is shared with stockholders in the form of dividends and increased stock values.

# Distribution Methods and Expectations



## Knowledge Check



1. If you were forming your own insurance agency, would you prefer to be an independent or a captive/exclusive agent? Explain your answer.

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2. Name one expectation the insurance company will have of the agency.

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# Admitted and Non-Admitted Insurance Companies

## ▶▶ Knowledge Check



Greg, a fellow account manager, approaches you one day to ask for advice. “I have a client whose business represents a really difficult-to-place risk. I am having trouble placing their business with an admitted insurance company. Do you think I should go with a non-admitted company? What will I need to consider if I decide to go that route?”

1. Explain to Greg how non-admitted insurance companies differ from admitted companies, making sure to describe the risks associated with non-admitted companies.

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2. Identify at least two considerations Greg should keep in mind if he decides to place his client’s risk with a non-admitted company.

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# Alternative Markets



## Knowledge Check



**Directions:** Match the term to the correct definition.

<b>A.</b> Captive insurance company	_____ Basic fire insurance available to those unable to obtain through standard markets
<b>B.</b> Lloyd's of London	_____ Conducts business across the U.S.
<b>C.</b> Managing general agent	_____ Members are businesses with related or similar activities, and the coverage provided is limited to liability insurance
<b>D.</b> National insurance company	_____ Not an insurance company, but a market where members are grouped together to insure risks
<b>E.</b> Risk retention group	_____ Conducts business only in states located in a geographic region
<b>F.</b> Regional insurance company	_____ Wholesale intermediary that represents one or more insurance companies
<b>G.</b> FAIR Plan	_____ Owned and controlled by their insureds and typically provide coverage for P&C exposures
<b>H.</b> Wind/hail pool	_____ Provides insurance to property owners unable to get coverage for wind damage from hurricanes and other windstorms

# Reinsurance



## Knowledge Check



**Directions:** Compare and contrast treaty and facultative reinsurance.

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## Section 3 Self-Quiz

**Directions:** Read each question below and select the correct answer.

1. Which one of the following is NOT one of the classifications of insurance company ownership?
  - ☐ Stock company
  - ☐ Mutual company
  - ☐ Regional company
  - ☐ City-wide company
2. Used by the agency for difficult-to-place risks and not authorized or licensed to do business in the state of jurisdiction is known as what type of insurance company?
  - ☐ Admitted insurance company
  - ☐ Non-admitted insurance company
3. Typically, government programs and pools handle risks that admitted companies won't write. Choose the scenario that best fits what a government program or pool would handle.
  - ☐ An earthquake struck and destroyed Sarah's business.
  - ☐ While driving to work, a distracted driver crashed into Jim's car.
  - ☐ The stove was left on and caused a fire in Gerald's kitchen.
  - ☐ A painter tripped on the uneven floorboards in Lynn's home, resulting in a broken elbow and dislocated shoulder.
4. When the insurance company agrees to transfer (cede) certain classes of business to the reinsurance company, this is an example of what type of type of reinsurance?
  - ☐ Facultative reinsurance
  - ☐ Treaty reinsurance

### Section 3: The Insurance Industry and Marketplace

**Directions:** Read each statement and select whether it is True or False.

1. In the 1920's, silent film comedian, Ben Turpin, purchased a \$25,000 insurance policy, payable if his trademark crossed eyes ever uncrossed. Lloyd's of London would be the market to insure this risk.

**True**

**False**

2. A mutual company is one owned by the policyholders *and* stockholders with the goal of providing insurance at or near the actual cost of doing business.

**True**

**False**

3. An excess and surplus lines agent/broker must be appointed by a non-admitted insurer to solicit, write insurance, collect premiums, and collect surplus lines premium taxes assessed on each written policy.

**True**

**False**

4. An insurance company in which each of the policyholders is also a stockholder—or owner—is known as a risk retention group.

**True**

**False**

5. The purpose of the FAIR Plan is to make flood insurance available to those unable to obtain it through other markets.

**True**

**False**

6. Leonard is an insurance agent who represents and works with various insurance companies. He has the ability to compare, offer, and sell policies and services to his clients. Leonard is known as a captive insurance agent.

**True**

**False**

## Section 4: Risk Management and Agency Processes



# Section 4: Risk Management and Agency Processes

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## The Risk Management Process

### Check-In



**Directions:** List the four logical classifications of exposures to loss.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

**Directions:** Name two methods used to identify exposures.

1. \_\_\_\_\_
2. \_\_\_\_\_

## Check-In



**Directions:** Circle the correct answer.

Based on the scenario below, is this active or passive retention?

Rick files an insurance claim for auto body repairs to his car after an accident, but learns he will have to pay 100% of the bill due to the high deductible on his policy.

**Active Retention**

**Passive Retention**

## ▶▶ Knowledge Check



The new leadership at your agency has decided it is important for agents to become knowledgeable in risk management in order to provide this value-added service to clients. After training all account managers, the agency begins to market risk management services to clients. As a result, one of your clients, Judy, calls you to ask about risk management procedures. Judy owns a company which reupholsters furniture, and she is especially concerned about bailee and transportation exposures—that is, risks related to having customers' furniture in her care, custody, and control while being transported to her facility, reupholstered, and then transported back to the client.

Explain to Judy how you can employ the five steps of the risk management process to help her identify and mitigate potential risks.

**\*Note:** You do not need to actually implement the process, but rather explain in general terms how the process can help Judy in this scenario.

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## Define Responsibilities and Standards



### Knowledge Check



Think back to the scenario presented at the beginning of this section in which you were asked to consider what it might be like to work for an agency that had no formal training program and no defined systems and processes. After working for this agency for a few weeks, you find that you often feel confused and frustrated. You feel you are not performing to your potential and are not upholding your ethical and legal responsibilities because you do not understand what is expected of you or how tasks are to be completed. You decide to “make the case” to leadership for developing written, uniform systems and procedures.

**Directions:** Briefly explain what it means to have written, uniform systems and procedures.

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# Training and Quality Control



## Knowledge Check



Consider again the scenario presented at the beginning of this section in which you were hired to work for an agency with no formal, written systems or procedures. It may not be surprising to you that this agency also does not have a quality control process in place.

In your first few weeks on the job, you notice this agency has a startling percentage of accounts that do not renew after the first year, along with quite a few customer service complaints. Additionally, employees often seem stressed and overworked, and productivity is low.

**Directions:** Explain how a quality control process and formal training procedure could help prevent so many customer service issues like these from occurring in the future and get the agency “back on track” with customer retention.

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## Section 4 Self-Quiz

**Directions:** Read each statement and select whether it is True or False.

1. The five steps in the risk management process include: Risk Identification, Risk Analysis, Risk Control, Risk Financing, and Risk Administration.

**True**

**False**

2. The physical inspections method of exposure identification consists of brief visits to critical sites within the organization.

**True**

**False**

3. A detailed diagram of the sequence in which raw materials or goods move through a firm's operations and processes to their final point of production and distribution is an example of the checklists, surveys, and questionnaires method of exposure identification.

**True**

**False**

4. Loss of a key person would be an example of a loss exposure in the logical category of human resources.

**True**

**False**

**Directions:** Using the terms, "**standard**," "**procedure**," and "**workflow**," fill in the blanks below. You will use each term only once.

1. A task the agency must do or accomplish is known as a \_\_\_\_\_.
2. The specific keystrokes and steps that need to be performed in order to complete a procedure is known as a \_\_\_\_\_.
3. A stated, acceptable level of performance in every area of the agency's operations is known as a \_\_\_\_\_.

**Directions:** Circle the term that best answers the question.

1. Which one of the following is NOT a component of a formal training plan?

**Specific**

**Time-Sensitive**

**Presentable**

**Reviewed**

## Section 4: Risk Management and Agency Processes

**Directions:** Read each question below and select the correct answer.

1. The focus of risk control is on finding and implementing solutions to prevent or reduce actual harm. William is traveling abroad and has the foresight to bring a scanned copy of his passport in addition to the physical passport. Which one of the following risk techniques is this an example of?
  - ☐ Avoidance
  - ☐ Loss prevention
  - ☐ Duplication/separation
2. When the customer knows before the loss that they are financially responsible for all or some of the loss, this is known as:
  - ☐ Active retention
  - ☐ Passive retention
  - ☐ Transfer
3. When the risk management program is implemented, monitored, and changes are made when necessary, this is an example of which step in the risk management process?
  - ☐ Risk Identification
  - ☐ Risk Control
  - ☐ Risk Administration
4. When considering a risk, thinking about how often the loss may occur (frequency) and the severity of the loss are examples of which step in the risk management process?
  - ☐ Risk Identification
  - ☐ Risk Analysis
  - ☐ Risk Control

# Section 5: Managing Coverage Information Exchange

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## Managing the Risks Involved in Information Exchange



### Knowledge Check



Sam is part of a effective team of young professional insurance agents. At his company, he and his fellow teammates rely on each other to get work done, and to promote a healthy workplace culture.

Considering the benefits of effective information exchange, this would be an example of which of the five benefits you learned about? Explain your answer.

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# Four Types of Information Exchange

## Check-In



For each example, state which type of communication is primarily being used.

	Verbal	Non-verbal	Visual	Written
1. Clara's coworker is making her feel uncomfortable, so she folds her arms across her chest and shifts her gaze toward the ground.				
2. Mike creates an infographic to demonstrate a new process to his team.				
3. Tina uses videoconferencing software to meet with her team to discuss their monthly sales goals. She asks everyone to speak for two to three minutes.				
4. During the monthly sales meeting, Tom wants to share an important update, but doesn't want to interrupt, so he uses the chat function.				

## ▶▶ Knowledge Check



Consider the scenario from the beginning of this section in which a customer called and was irate because of a lack of communication regarding changes to her policy.

How could the agency improve its overall communications with customers to prevent this type of situation from occurring in the future?

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# Managing Digital Media in Insurance



## Knowledge Check



The senior vice president of your agency, Amy, tells you she would like to increase the agency's digital media presence but is concerned about the potential risks. Amy asks you to develop a digital media plan that includes ideas for engaging current and potential customers through social media, as well as a risk management plan.

1. Provide Amy with an idea for how your agency might use digital media as a marketing and engagement tool.

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2. Provide Amy with an idea for how you can mitigate the risks associated with digital media marketing.

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## Section 5 Self-Quiz

**Directions:** Read each statement and select whether it is True or False.

1. Denise logs into a webinar on the subject of life and health insurance. She notices that the chat is disabled, and all participants are automatically muted. Once the speaker is done with the session, everyone logs off. This is an example of one-way communication.

**True**

**False**

2. Scott is at summer camp and wants to write a letter to send back home to his parents. He finds a post card and writes down all of the events of his summer sleepaway adventure. Writing and sending a postcard is an example of verbal communication.

**True**

**False**

3. A client calls you to ask for a re-quote on an insurance policy. The client is frustrated and feels like he pays too much for the coverage he has. Listening to him, you avoid thinking about what you want to say next until your customer is done speaking. Refraining from concentrating on what you want to say next is an example of taking steps towards improving your speaking skills.

**True**

**False**

4. Sylvia is an insurance agent and wants to broaden her network. If done correctly, it would be beneficial for Sylvia to market her business through various social media platforms.

**True**

**False**

**Directions:** Read each question below and select the correct answer.

1. Select the example below that illustrates non-verbal communication.
- ☐ Calling your spouse to say you're running late for dinner
  - ☐ Writing an email to your boss letting her know you'll be out of office
  - ☐ Staring-down your colleague after he spoils a surprise office party
2. When proofing communication, there is a three-step process that should be followed. Identify the example below that is NOT part of this process.
- ☐ Alicia opens her email and begins to compose her message.
  - ☐ When finished, she goes back to look over the content.
  - ☐ Noticing some grammatical errors, she takes the time to fix her text.
  - ☐ When finished, Alicia reviews the correspondence one more time before hitting "send."

## Section 5: Managing Coverage Information Exchange

3. Each of the following are examples that should be included in an insurance agency's social media or internet use policy, EXCEPT:
- ☐ Allotted usage time
  - ☐ Confidentiality
  - ☐ No expectation of privacy
  - ☐ Definitions
4. Select the example that best showcases an effort to improve non-verbal communication.
- ☐ Not interrupting when someone is telling you a story
  - ☐ Maintaining eye contact when a person is speaking to you
  - ☐ After the customer speaks, summarizing what has been said for clarification before answering any questions or offering recommendations
  - ☐ Making physical contact
5. During a video call, Murphy finds what the speaker is saying to be very funny. To show his support, Murphy drops in a GIF or an animated image of a cartoon character laughing and clapping. This an example of which of the four main forms of communication?
- ☐ Verbal
  - ☐ Visual
  - ☐ Non-verbal
  - ☐ Written

## Section 6: Managing the Agency Workflows and Procedures

## Section 6: Managing the Agency Workflows and Procedures

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### New Business Development Workflow



#### Knowledge Check



Consider the scenario from the beginning of this section in which you have been tasked with generating new commercial business for your agency. Choose two sources that you think would be most effective for identifying new business prospects and explain your answer. Describe the process you would follow to convert leads into prospects and prospects into customers.

1. 

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2. 

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## Account Servicing Skills



### Knowledge Check



Consider the scenario at the beginning of the section in which your team is working to develop a plan for bringing new business to the agency. Because the agency has such a strong focus on acquiring new business, you are finding that account managers are attempting to place new customers with insurance carriers even when those customers do not meet the companies' underwriting guidelines.

1. Explain to your colleagues why it is important to adhere to underwriting guidelines. What are the potential consequences for not abiding by an insurance company's underwriting guidelines?

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2. Provide an example of a time when it would be acceptable to ask for an exception to a company's underwriting guidelines.

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## Account Servicing Procedures



### Knowledge Check



Your new colleague, Erin, submits an application for a new customer's personal auto policy. After sending the application, Erin leans back in her seat and smiles, "It always feels so good to send off the application and be done with it! It's in the insurance company's hands now!" You are concerned that Erin does not plan to follow up with the insurance company.

1. Explain to Erin the steps she needs to take next, now that the application has been submitted.

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2. Briefly describe what Erin's role will be when it comes to servicing this account in the future.

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## Processing Renewal Business



### Knowledge Check



You introduce your new colleague, Sarah, to the renewal list. What actions do you explain to her will need to be taken with the list? Explain to her the opportunities it presents.

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## Section 6 Self-Quiz

**Directions:** Read each question below and select the correct answer.

1. The following are items that need to be accomplished to bring in new business, EXCEPT:
  - ☐ Submit to markets
  - ☐ Establish a plan
  - ☐ Submit endorsement request
  - ☐ Gather account information and document
2. Iris wants to grow her insurance agency by writing new business. She seeks to do so by looking at her existing client base and promoting products that are related or complementary to the existing coverage they have, or that other departments within the agency offer. This is an example of securing new business through:
  - ☐ Account rounding
  - ☐ Producer generated
  - ☐ Advertising/internet
  - ☐ Referrals
3. The quality of the product and pricing you will have available to present to the prospect is dependent on the quality of your submission and the markets selected. Each of the following are examples of when insurance company underwriters are more receptive, EXCEPT:
  - ☐ The applications are accurate, complete, and legible.
  - ☐ The account meets the company guidelines.
  - ☐ A cover letter is included to provide additional details or explanations when needed.
  - ☐ A misrepresentation is made on the application..
4. Sydney is reviewing the business auto application on one of her accounts. Since it is missing some information the underwriter will need to determine renewal coverage and pricing, Sydney should contact:
  - ☐ Sam, a listed driver on the current auto application
  - ☐ Bob Smith, the named insured
  - ☐ Karen, the office manager
  - ☐ Kim, Bob Smith's daughter



## Section 6: Managing the Agency Workflows and Procedures

**Directions:** Read each statement below and select whether it is True or False.

1. When it comes to proposals to customers, it is safe to assume that the more complex the account, the more personalized, detailed, and specific the proposal ends up being.

**True**

**False**

2. Credit scoring is widely used as a part of the underwriting process.

**True**

**False**

3. The renewal process should begin 30 days from policy expiration date.

4. The agency's proposal should contain only the premium quoted for the prospect to review.

**True**

**False**

## Section 7: Account Management

# Section 7: Account Management

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## Financial Statements

### ▶▶ Knowledge Check



Consider the scenario from the beginning of this section in which your coworker, Alex, was upset that account managers will undergo training on how to read and use financial statements.

Explain to Alex why evaluating a potential customer's financial condition is an important piece of the underwriting process. Describe two basic tools that can be used to review the financial data.

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## Billing Types

### ▶▶ Knowledge Check



Explain the differences between direct billing, agency billing, and premium financing.

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## Providing Evidence of Insurance

### ▶▶ Knowledge Check



Explain the difference between a certificate of insurance and an insurance binder.

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## Claims Processing

### ▶▶ Knowledge Check



One of your commercial clients, Hank Harper, enters your agency and is distraught because he needs to file a claim for water damage at his restaurant. Hank is very upset and worried about the cost of repairs and potential loss of revenue for his business. Based on what Hank is saying, describe the steps you would take to handle the situation.

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## Service Centers

### ▶▶ Knowledge Check



Your agency is considering using a service center, and the agency leadership has asked for your input. List two potential benefits of using a service center, as well as two things leadership should consider before entering into the service center agreement.

1. Benefits: \_\_\_\_\_  
\_\_\_\_\_
2. Considerations: \_\_\_\_\_  
\_\_\_\_\_

## Section 7 Self-Quiz

**Directions:** Select the correct letter to match each term with the appropriate definition.

<b>A.</b> Direct billed	_____ Policies for which the insurance agency is responsible for collecting premium and sending the net to insurance company
<b>B.</b> Profit and loss statement	_____ A temporary insurance contract that should not be issued without careful underwriting attention
<b>C.</b> Agency billed	_____ Used by agencies to assist with handling more routine aspects of a book of business
<b>D.</b> Insurance binder	_____ Policies for which the insurance company is responsible for collecting premium
<b>E.</b> Balance sheet	_____ A “snapshot” of the financial condition of the individual or organization on the date it was created
<b>F.</b> Service centers	_____ Summarizes financial results over a period of time

**Directions:** Read each statement below and select whether it is True or False.

1. The three components to the balance sheet are: assets, liabilities, and losses.

**True**

**False**

2. The profit and loss statement can provide a financial picture over a chosen period of time.

**True**

**False**

3. If a customer is unable to pay the entire premium when billed by the agency, the agency may offer payment terms to the customer through a premium finance company.

**True**

**False**

4. The certificate of insurance is not a contract or a legal document.

**True**

**False**

5. The evidence of property insurance form amends, extends, or alters the coverage or insuring terms provided by the policy identified.

**True**

**False**

## Section 7: Account Management

6. A binder should only be issued when the coverage has actually been placed in accordance with the agency's binding authority as specified in the agency agreement or with permission of the insurance company.

**True**

**False**

7. When it comes to claims reporting, after the insured reports a claim, the next step is to inform the insured of policy conditions.

**True**

**False**

## Section 8: Errors and Omissions



## Section 8: Errors and Omissions

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### Negligence



#### Knowledge Check



Consider the scenario at the beginning of this section, in which you forgot to submit George's application for a personal auto policy on time, and he was left without coverage after an accident.

Is this an example of negligence? Why or why not?

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### Common Causes of E&O Claims



#### Knowledge Check



Explain one common cause of claim brought against the agent by the insured and one common cause of claim brought by the insurance company.

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## Agency Defense Activities



### Knowledge Check



An irate customer calls your agency because a claim on their Homeowners insurance policy was denied. The customer says your agency did not provide them with the proper coverage and that their home was undervalued and underinsured as a result. As the account manager who bound the policy and submitted it to the company to issue, you check your records and see that you have conducted the policy-check in the workflow and confirmed the insured was issued the

coverage they agreed to on the signed application.

The customer has advised they are suing the agency. What steps should you take to prepare?

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## Section 8 Self-Quiz

**Directions:** Select the correct letter to match each term with the appropriate scenario that reflects a common claim made against insurance agents.

<p><b>A.</b> Failure to maintain or renew coverage</p> <p><b>B.</b> Making a clerical error</p> <p><b>C.</b> Failure to service policies</p> <p><b>D.</b> Misrepresenting the risk</p> <p><b>E.</b> Failure to place coverage after agreeing to it</p>	<p>_____ Emma, an insurance agent, receives a request to bind coverage. She has all the requisite paperwork in her inbox and will get to it on Monday, when back in the office. Over time, the paperwork gets buried in Emma's inbox; the client calls asking why there is a delay in obtaining coverage.</p>
	<p>_____ Marco's Insurance Agency fails to notice that one of their clients, Bob, does not carry the underlying limits required by the umbrella policy. A loss occurs, making Bob responsible for the gap in coverage.</p>
	<p>_____ Gerry, an insurance agent, does not disclose information to the carrier that a client has vacated his primary residence, and the home has been vacant over 30 days.</p>
	<p>_____ Isaac, an insurance agent, fails to mark replacement cost on the application. The property has a loss and is now subject to paying actual cash value. The error is discovered after the loss occurs.</p>
	<p>_____ Stefanie, an insurance agent, is behind on her renewal listings that are agency billed. As a result, a few of her clients are left without coverage after their policies expire.</p>

## Section 8: Errors and Omissions

**Directions:** Read each statement below and select whether it is True or False.

1. In order for negligence to have occurred, there must be four elements involved. "Duty owed to another party" is one of the elements.

**True**

**False**

2. Failure to use a degree of care that is considered unreasonable under a given set of circumstance describes the term, **negligence**.

**True**

**False**

3. The agency telling an insured that their policy provides coverage for something when it doesn't is an example of **misrepresentation**.

**True**

**False**

4. When an E&O issue occurs, the incident should be discussed with everyone in the agency, whether they are involved or not.

**True**

**False**

# **Answer Key**



# Section 1: Ethical and Legal Requirements

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## What is Ethical Behavior?



### Knowledge Check



What does an agency gain by requiring their employees to behave ethically?

**Sample answer:**

When the agency's employees behave ethically, the agency can gain public trust and confidence, the ability to avoid government regulation, and increased credibility with all stakeholders.

# Ethical Issues

## ▶▶ Knowledge Check



Consider the scenario used at the beginning of this section:

During your training, you begin to notice that, on occasion, one of your fellow account managers, Alex, cuts corners. For example, after noticing that an insured forgot a signature on an application, Alex says, “Don’t worry about it—she’s been my client for years and I know she won’t mind me signing for her.” On another occasion, you observe Alex misrepresenting a garaging address on an application form and decide to point it out. “Oh, don’t worry,” Alex says, “This client is a friend of mine, and fudging the address will help him get a better premium. I’ve done it before, and I’ve never gotten in any trouble.”

**Directions:** Identify two examples of actions that Alex has taken which represent ethical breaches.

**Sample answer:**

1. Alex signed for an insured. Instead, he should have contacted her to obtain her signature.
2. Alex misrepresented a client’s garaging address to obtain a better premium. Instead, he should have reported the correct address and accepted the premium for that location.



# Six Steps to Ethical Decision-Making



## Knowledge Check



Let's revisit, once again, the scenario presented at the beginning of this section:

During your training, you begin to notice that, on occasion, one of your fellow account managers, Alex, cuts corners. For example, after noticing that an insured forgot a signature on an application, Alex says, "Don't worry about it—she's been my client for years and I know she won't mind me signing for her." On another occasion, you observe Alex misrepresenting a garaging address on an application form and decide to point it out to him/her. "Oh, don't worry," Alex says, "This client is a friend of mine, and fudging the address will help him to get a better premium. I've done it before, and I've never gotten in any trouble."

**Directions:** Describe how you would use the **six steps to ethical decision-making** to address this ethical dilemma.

### Sample Answer:

There are many solutions, but your response should demonstrate your ability to recall the six steps.

1. **Define the Problem:** Alex did not follow procedures and he cut corners, putting the agency and customer at risk by signing for a client and misrepresenting a garaging address for self-gain.
2. **Seek Out Resources:** You could refer to the operations manual or procedure guide for agency standards, or seek out a manager.
3. **Brainstorm a List of Potential Solutions:** If a procedure manual doesn't exist, help create one, or if it is missing ethical standards, add them.
4. **Evaluate Those Alternatives:** Weigh in on the list you developed from step #3 and consider consequences that could occur with each possible solution.
5. **Make Your Decision and Implement It:** The best solution was to add ethical standards into the procedure manual since it did not address ethical responsibilities, and to support those standards with additional training.
6. **Evaluate Your Decision:** Determine if the problem has been fixed, and if not, revisit the prior steps.

# Legal Responsibility



## Knowledge Check



Consider the scenario from the beginning of this section one more time.

Recognizing that your fellow account manager, Alex, is not taking the care or consideration of performing all of his duties as expected, you now realize there might be legal ramifications following his behavior. Focus for a moment on the fact that Alex signed contract documents on behalf of his client, and consider the legal ramifications in answering the question below.

**Directions:** Explain how Alex's actions may impact each of the following legal criteria:

**Sample Answer:**

**Peer standards:** Peer standards require that a person's duties be performed in a manner similar to others in the same position. As an account manager, Alex did not perform in the same manner a reasonable and prudent account manager would when completing an application; the customer would sign the document, not Alex.

**Contracts:** Insurance contracts have been violated through Alex's actions and can be voided by the carrier. The agency has an agreement/contract in place outlining their legal responsibilities to the company. The customer has a contract with the company once coverage is issued and premium payment is exchanged.

**Statutes:** When Alex, instead of the named insured, signed the document, he provided false information and misrepresented. By making misrepresentations, Alex has put himself and the agency at risk of legal action, including E&O suits.

## Agents' Authority



### Knowledge Check



Victor works at an agency and will be participating in an insurance trade show representing Wildfire Insurance Company. Victor would like to have a booth that shows his company affiliation with Wildfire. Does Victor have the authority to put Wildfire's logo on his booth and, if so, what type of authority does this fall under?

#### Sample Answer:

This example falls under implied authority as it describes a situation in which the authority of the agent is not specifically expressed or communicated (not in writing or other forms of communication), but it is still consistent with the agent fully exercising the expressed authority granted by the company.

This allows the agent to perform all necessary duties required to sell and service the insurance policy.

# The Standard of Care Agencies Owe to Their Customers and Insurance Companies

## ▶▶ Knowledge Check



You are meeting with a new client, Wanda, to collect the information needed for her commercial property policy application for her retail shop. During the course of the meeting, you become concerned that Wanda is not being fully forthright regarding her previous experience in this industry. Wanda wants to be placed with a preferred carrier whose underwriting guidelines require she have at least three years' of experience. Wanda states she has over 10 years of experience but is unwilling provide any documentation to support her claim. Your teammate and fellow account manager account manager, Cindy, urges you to place the business with the carrier anyway, reminding you that retail shops are a desired risk for this insurance company. Cindy also confides, "Wanda is a longtime personal friend of mine, and I can vouch for her character."

How would you respond in this scenario? Explain your answer, making sure to mention at least two of the standards of care agencies owe to insurance companies.

### Sample Answer:

**Loyalty:** Cindy's and my first loyalty is the insurance company. I am uncomfortable that Wanda does not have the experience she is claiming on her application. To remain faithful to the company/agent relationship and guidelines, I am required to act for the benefit of the insurance company regarding matters associated with the agency contract.

**Good faith:** Insurance contracts are contracts of utmost good faith, meaning all parties to the insurance contract must deal in good faith, declaring all material facts in the application.



## Knowledge Check



Consider the previous scenario in which you were pressured to place Wanda's retail business with a carrier despite not being certain that she meets the underwriting guidelines. You decided to tell Wanda that you need more proof of her industry experience before you can place her with her preferred carrier. Wanda becomes belligerent. "I have never been asked to provide this type of information before, so I don't see why I should have to now! I can't believe that you don't trust me!"

Explain to Wanda how you will employ the standards of care described earlier in this section.

### Sample Answer:

As with all agencies' customers, Wanda should receive the standard of care owed to her as a customer. Some of those standards you can reassure her you provide are: adequate coverage, proper coverage, coverage placed in her best interest, prompt communication, and coverage placed with a financially sound insurance company.

# Licensing and Continuing Education Regulatory Requirements

## Knowledge Check



Let's revisit the previous scenario, in which you had to deal with a client (Wanda) who was upset, while still upholding the standards of care to both the customer and the insurance company.

How might continuing education prepare an insurance agent to effectively handle a complex risk if the customer's expectations differ from the insurance company's ability to write the risk? Explain your answer.

### Sample Answer:

By continuing to maintain and invest in education within the insurance industry, the agent will be better prepared with greater knowledge on coverages and the target appetite of various carriers. Current, practical, and comprehensive continuing education will help you be aware of changes and innovations in the insurance industry. Hours of continuing education will not only familiarize you with risk issues, it will give you the confidence to speak with your clients with confidence and compassion and help you explain the underwriting process and underwriting guidelines. Ultimately, obtaining an insurance license and educating yourself will give you the ability to service your customers with their best interests at heart.

## Section 1 Self-Quiz

**Directions:** Read each question below and select the one correct answer.

1. Limitations on how credit scoring is used in underwriting is an example of which one of the three topics concerning the benefits of ethical behavior?  
☐ Credibility  
☒ Government regulation  
☐ Public trust and confidence
2. Property values, protection class, other residents in the household, and rates based on classification or garaging address are all areas in which there may be \_\_\_\_\_ faced by insurance professionals.  
☐ peer standards  
☐ apparent authority  
☒ ethical issues
3. An agreement between two or more parties that creates an obligation to do or not do something is the definition of what term?  
☐ Statute  
☒ Contract  
☐ Peer standard
4. Micah is driving down the road in his Chevy and adheres to the neighborhood speed limit of 25 MPH. Doing so, Micah is following a \_\_\_\_\_.  
☒ statute  
☐ contract  
☐ peer standard

## Section 1: Ethical and Legal Requirements

**Directions:** Read each statement and select whether it is True or False.

1. When the agency helps the customer determine the appropriate amount of insurance to meet their needs, this is known as providing adequate coverage.

**True**

**False**

Providing adequate coverage means the agency helps the customers determine the appropriate amount of insurance to meet their needs. This can be done by explaining the benefits and/or advantages of adequate amount of insurance,

2. When someone is prevented from arguing something or asserting a right that contradicts what they previously said or agreed-to by law, this is known as estoppel.

**True**

**False**

Estoppel is “the principle which precludes a person from asserting something contrary to what is implied by a previous action or statement of that person or by a previous pertinent judicial determination.” What does this actually mean? Basically, it prevents someone from arguing something or asserting a right that contradicts what they said previously or agreed to by law.

3. When it comes to ethical decision-making, thinking about whether a problem has three potentially negative consequences means you are “seeking out resources.”

**True**

**False**

Evaluating whether one solution has three potential negative consequences is something you do when you “evaluate those alternatives.”

4. It’s Friday afternoon, and Silas is just about to head home for the weekend when he realizes that he neglected to notify one of his customers about the non-renewal of her policy. Taking the time to pick up the phone to call the client immediately means that Silas is demonstrating “coverage placed in the best interest of the customer.”

**True**

**False**

Silas is engaging in “prompt communication.” It is important to promptly notify customers about all aspects of their insurance transactions with the agency—including but not limited to changes, exclusions, limitations, claims, cancellations, and non-renewals.



# Section 2: Managing the Insurance Agency

## The Insurance Agency

### Check-In



**Directions:** Read each example and determine whether it is a SMART goal. If it is not a SMART goal, state why not.

1. Rebecca wants to increase her sales revenue by 12% by the end of next quarter.

SMART goal

2. The customer service team wants to have 100% customer satisfaction on all surveys.

Not a SMART goal—not attainable, not time-bound

3. Based on the agency's desired growth areas, Anthony wants to sign three new retail clients by the end of the calendar year.

SMART goal



### Knowledge Check



Why is it important for an insurance agency to have values, vision, and mission statements?

**Sample Answer:**

These statements define strategic direction; they help define expectations for the agency's employees, distinguish the agency from its competition (supporting the agency's brand), and set the culture.

# Factors that Impact the Agency's Operations



## Knowledge Check



What are some factors that impact how the agency distributes its products and serves their customers?

**Sample Answer:**

The number of employees (workforce), space planning, organization of agency (structure), technology (agency management system)

# Managing the Positions Within the Insurance Agency

## ▶▶ Knowledge Check



Your agency is seeking to hire a new personal lines account manager. Your manager shares the position description with you:

### Personal Lines Account Manager

Responsibilities:

- Answer phones and handle customer queries
- Sales duties as needed

Qualifications:

- Three years' experience, or equivalent combination of education and experience
- Must be friendly and personable

**Directions:** Considering the role of the account manager and what you learned about the position description, what feedback would you give your manager on what components are missing?

**Note:** You do not need to rewrite the position description; simply explain missing components that can be added to create a more complete position description.

**Sample Answer:**

The missing components are: the reason for the position, the level of authority, a measure of performance, and working conditions.

## Section 2 Self-Quiz

**Directions:** Read each statement and select whether it is True or False.

1. The vision statement reflects the agency's current and future goals, such as "serving and protecting local families and businesses with the best insurance policies at the right price."

**True**

**False**

The vision statement reflects the current and future goals of an agency or business. For example, Coca Cola's vision is to craft the brands and choice of drinks that people love, and to refresh them in body and spirit.

2. Defining the heart of the organization, core priorities, and behavioral issues that matter most to the agency's management would describe the intent of the agency's mission statement.

**True**

**False**

The heart of the organization, core priorities, and behavioral issues that matter the most to the agency's management ("What do we stand for?") is known as the values statement.

3. Read the following goal: "Jensen Insurance Agency seeks to develop a client referral program by the third quarter of 2021." Adhering to the principles of SMART goal-setting, this reflects a goal that is time-based.

**True**

**False**

The goal mentions developing a client referral program by the third quarter of 2021, which is a time-based parameter for when this goal should be met; so everyone working towards this goal understands the designated time frame.

## Section 2: Managing the Insurance Agency

4. The agency's brand encompasses the behaviors and attitudes of the organization and its employees. It is the environment created by the agency for its employees.

True

False

The brand will be a summary of the agency's values, vision, and mission statements into the marketplace and community demonstrating how they differ from competition. The brand will drive the agency culture for the entire operations, as well as the sales and service. Culture is comprised of the behaviors and attitudes of the organization and its employees, including the environment of the agency.

5. Agencies that are small and have relatively few employees tend to have a vertical or tiered organizational structure.

True

False

Agencies that are smaller, tend to have a flat or horizontal structure. Agencies with many employees tend to have a tiered or vertical structure. The division of job functions and responsibilities are well-defined, as are the reporting relationships.

## Section 2: Managing the Insurance Agency

**Directions:** Read each question below and select the correct answer.

1. Which one of the following questions is NOT among those the agency's management should be asking when determining what is needed to meet or exceed its goals?
  - ☐ What products will be sold?
  - ☒ How long has the agency been in business?
  - ☐ What is the source of the revenue?
  - ☐ What kind of space-planning is needed?
2. Carla is an insurance broker, but not an insurance agent. What does Carla not have the authority to do?
  - ☐ Act on behalf of the customer
  - ☐ Identify prospects
  - ☒ Authorize insurance transactions (bind coverage)
3. Transacting insurance, account rounding, and cross selling are all tasks performed by what position in the insurance agency?
  - ☐ Office manager
  - ☒ Account manager
  - ☐ New client business manager
4. What might an insurance agency be lacking if employees struggle to understand its vision and do not unite or adhere to a plan or direction?
  - ☒ Effective leadership
  - ☐ A sufficient number of employees
  - ☐ Experience in the industry

# Section 3: The Insurance Industry and Marketplace

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## Industry Regulation



### Knowledge Check



**Directions:** Given the description, identify whether the ownership of the company is classified as a stock, mutual, or reciprocal company.

<b>A.</b> Stock Company	<b>B</b> Insurance Company Blue does not have stockholders, but instead is owned by the policyholders. At the end of each fiscal year, policyholders receive a dividend of any surplus profits.
<b>B.</b> Mutual Company	<b>C</b> Insurance Company Green is comprised of a group of subscribers who insure one another in commercial property insurance. The company is managed by an attorney-in-fact.
<b>C.</b> Reciprocal Company	<b>A</b> Insurance Company Red is owned by stockholders and run by a board of directors. Its goal is to make a profit each year, which is shared with stockholders in the form of dividends and increased stock values.

# Distribution Methods and Expectations



## Knowledge Check



1. If you were forming your own insurance agency, would you prefer to be an independent or a captive/exclusive agent? Explain your answer.

**Sample Answer:**

I would prefer to be an independent agent so I could represent a variety of insurance companies. This would allow me to compare policies and pricing from several companies.

2. Name one expectation the insurance company will have of the agency.

**Sample Answer:**

A good working relationship between agency/company staff members

Competent management, knowledgeable and professional staff

Honest submission with full disclosure of material facts

High close and retention ratio

Agency premium growth—share of business

Low loss ratio



# Admitted and Non-Admitted Insurance Companies

## ▶▶ Knowledge Check



Greg, a fellow account manager, approaches you one day to ask for advice. “I have a client whose business represents a really difficult-to-place risk. I am having trouble placing their business with an admitted insurance company. Do you think I should go with a non-admitted company? What will I need to consider if I decide to go that route?”

1. Explain to Greg how non-admitted insurance companies differ from admitted companies, making sure to describe the risks associated with non-admitted companies.

### Sample Answer:

Admitted companies are licensed by the state and have authority to appoint agencies/agents. Non-admitted companies are used for more difficult-to-place risks and are not authorized or licensed to do business in the state or jurisdiction.

2. Identify at least two considerations Greg should keep in mind if he decides to place his client’s risk with a non-admitted company.

### Sample Answer:

Any of the following would be correct: binding authority typically doesn’t exist, minimum premiums are higher, minimum premiums may be fully earned, non-standard coverage forms, review financial strength, flexibility in product offering

# Alternative Markets



## Knowledge Check



**Directions:** Match the term to the correct definition.

<b>A.</b> Captive insurance company	<b>C</b> Basic fire insurance available to those unable to obtain through standard markets
<b>B.</b> Lloyd's of London	<b>D</b> Conducts business across the U.S.
<b>C.</b> Managing general agent	<b>E</b> Members are businesses with related or similar activities, and the coverage provided is limited to liability insurance
<b>D.</b> National insurance company	<b>B</b> Not an insurance company, but a market where members are grouped together to insure risks
<b>E.</b> Risk retention group	<b>F</b> Conducts business only in states located in a geographic region
<b>F.</b> Regional insurance company	<b>C</b> Wholesale intermediary that represents one or more insurance companies
<b>G.</b> FAIR Plan	<b>A</b> Owned and controlled by their insureds and typically provide coverage for P&C exposures
<b>H.</b> Wind/hail pool	<b>H</b> Provides insurance to property owners unable to get coverage for wind damage from hurricanes and other windstorms

# Reinsurance



## Knowledge Check



**Directions:** Compare and contrast treaty and facultative reinsurance.

### Sample Answer:

With treaty reinsurance, the ceding insurance company agrees to transfer certain classes of business that qualify to the reinsurance company as described in the treaty agreement, whereas facultative reinsurance is based on individual risks under the contract; the reinsurer retains faculty to accept or reject each risk offered by the ceding company.

## Section 3 Self-Quiz

**Directions:** Read each question below and select the correct answer.

1. Which one of the following is NOT one of the classifications of insurance company ownership?
  - ☐ Stock company
  - ☐ Mutual company
  - ☐ Regional company
  - ☒ City-wide company
2. Used by the agency for difficult-to-place risks and not authorized or licensed to do business in the state of jurisdiction is known as what type of insurance company?
  - ☐ Admitted insurance company
  - ☒ Non-admitted insurance company
3. Typically, government programs and pools handle risks that admitted companies won't write. Choose the scenario that best fits what a government program or pool would handle.
  - ☒ An earthquake struck and destroyed Sarah's business.
  - ☐ While driving to work, a distracted driver crashed into Jim's car.
  - ☐ The stove was left on and caused a fire in Gerald's kitchen.
  - ☐ A painter tripped on the uneven floorboards in Lynn's home, resulting in a broken elbow and dislocated shoulder.
4. When the insurance company agrees to transfer (cede) certain classes of business to the reinsurance company, this is an example of what type of type of reinsurance?
  - ☐ Facultative reinsurance
  - ☒ Treaty reinsurance

### Section 3: The Insurance Industry and Marketplace

**Directions:** Read each statement and select whether it is True or False.

1. In the 1920's, silent film comedian, Ben Turpin, purchased a \$25,000 insurance policy, payable if his trademark crossed eyes ever uncrossed. Lloyd's of London would be the market to insure this risk.

**True**

**False**

Lloyd's of London is known as a market for difficult-to-insure risks as well as the unique or unusual risk. It is not an insurance company; rather, it is a market where Lloyd's members are grouped together to insure risks.

2. A mutual company is one owned by the policyholders *and* stockholders with the goal of providing insurance at or near the actual cost of doing business.

**True**

**False**

A mutual company is owned by the policyholders, with no stockholders, and the goal of providing insurance at or near the actual cost of doing business. At the end of the fiscal year, if there is money left over in the form of profits or surplus, the money may be returned to the policyholders as a dividend or used to reduce future premiums.

3. An excess and surplus lines agent/broker must be appointed by a non-admitted insurer to solicit, write insurance, collect premiums, and collect surplus lines premium taxes assessed on each written policy.

**True**

**False**

An excess and surplus lines agent/broker is licensed in a state to sell property and casualty insurance through a non-admitted (surplus lines) insurer. In most states or jurisdictions, this type of agent/broker must be appointed by a non-admitted insurer to solicit, write insurance, collect premiums, and collect surplus lines premium taxes assessed on each policy written.

### Section 3: The Insurance Industry and Marketplace

4. An insurance company in which each of the policyholders is also a stockholder—or owner—is known as a risk retention group.

True

False

A risk retention group is an insurance company in which each of the policyholders is also a stockholder (owner). The members are businesses with related or similar activities, and the coverage provided is limited to liability insurance. Risk retention groups are formed under federal laws granted under the Federal Liability Risk Retention Act of 1986. While formed under the Federal Act, they are regulated by each state they do business in.

5. The purpose of the FAIR Plan is to make flood insurance available to those unable to obtain it through other markets.

True

False

The purpose of the FAIR Plan is to make fire insurance available to those unable to obtain it through other markets. Coverage is written on a basic fire policy, although some states may offer additional coverages. It is a state-sponsored plan, so it is not available in all states or jurisdictions. In addition, a state can choose to make coverage available only in certain counties.

6. Leonard is an insurance agent who represents and works with various insurance companies. He has the ability to compare, offer, and sell policies and services to his clients. Leonard is known as a captive insurance agent.

True

False

Leonard would be considered an **independent agent**. Independent agents represent and work with various insurance companies, having the ability to compare, offer, and sell policies and services from the insurance companies they represent. This is known as the independent agency system. There are benefits of being able to offer clients policies from multiple insurance companies, giving the agent the ability to offer a wider selection of coverage and pricing. Under most agency-company agreements, the agency has ownership of the accounts written with the company.

# Section 4: Risk Management and Agency Processes

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## The Risk Management Process

### Check-In



**Directions:** List the four logical classifications of exposures to loss.

1. Property
2. Human Resources
3. Liability
4. Net Income

**Directions:** Name two methods used to identify exposures.

**Sample Answer:**

Any of the following responses would be correct.:

expert review

checklist, surveys, and  
questionnaires

policies and procedures  
review

physical inspection

loss data analysis

insurance policy review

contract review

flowchart review

financial statement analysis

compliance review

procedures and policies review

## Check-In



**Directions:** Circle the correct answer.

Based on the scenario below, is this active or passive retention?

Rick files an insurance claim for auto body repairs to his car after an accident, but learns he will have to pay 100% of the bill due to the high deductible on his policy.

**Active Retention**

**Passive Retention**

## ▶▶ Knowledge Check



The new leadership at your agency has decided it is important for agents to become knowledgeable in risk management in order to provide this value-added service to clients. After training all account managers, the agency begins to market risk management services to clients. As a result, one of your clients, Judy, calls you to ask about risk management procedures. Judy owns a company which reupholsters furniture, and she is especially concerned about bailee and transportation exposures—that is, risks related to having customers' furniture in her care, custody, and control while being transported to her facility, reupholstered, and then transported back to the client.

Explain to Judy how you can employ the five steps of the risk management process to help her identify and mitigate potential risks.

**\*Note:** You do not need to actually implement the process, but rather explain in general terms how the process can help Judy in this scenario.

### Sample Answer:

The first step is risk identification and engaging one or more methods to determine what exposures exist at Judy's business. Next, apply risk analysis to discover the frequency and severity of the risks at Judy's business. Third, apply risk control, relying possibly on a combination of several techniques to control the exposures. Fourth, determine the best method of risk financing. Then fifth, utilize risk administration methods to implement, monitor, and adjust, as needed.



# Define Responsibilities and Standards



## Knowledge Check



Think back to the scenario presented at the beginning of this section in which you were asked to consider what it might be like to work for an agency that had no formal training program and no defined systems and processes. After working for this agency for a few weeks, you find that you often feel confused and frustrated. You feel you are not performing to your potential and are not upholding your ethical and legal responsibilities because you do not understand what is expected of you or how tasks are to be completed. You decide to “make the case” to leadership for developing written, uniform systems and procedures.

**Directions:** Briefly explain the benefits of having written, uniform systems and procedures.

### Sample Answer:

Benefits of a written, uniform system could be any combination of:

- Uniform way for work to be performed
- Training tool for new employees
- Reference tool for all employees
- Reinforces quality of work by removing uncertainty about how to accomplish what needs to be done
- E&O loss prevention
- Key for defending E&O claims

# Training and Quality Control



## Knowledge Check



Consider again the scenario presented at the beginning of this section in which you were hired to work for an agency with no formal, written systems or procedures. It may not be surprising to you that this agency also does not have a quality control process in place.

In your first few weeks on the job, you notice this agency has a startling percentage of accounts that do not renew after the first year, along with quite a few customer service complaints. Additionally, employees often seem stressed and overworked, and productivity is low.

**Directions:** Explain how a quality control process and formal training procedure could help prevent so many customer service issues like these from occurring in the future and get the agency “back on track” with customer retention.

### Sample Answer:

Internal quality control is a process through which the agency seeks to ensure that product and service quality is maintained or improved upon, based on agency standards. Performance audits can reveal undetected problems; poor performance may lead to poor service, loss of sales, strained company relations, low productivity, weak financial results, frustrated staff and owners, and potential errors and omissions. Quality control audits can identify the training that may be needed. Employees should be versed in “the agency way” and customer etiquette, be well-trained in technical terms, have good product knowledge of how to apply the right policies and risk management solutions, and know where to secure such products and resources. A formal training plan should be documented, kept updated, and be accessible. Checking work on an on-going basis allows for corrections and changes to be handled without delay, minimizing the number of items that need to be reviewed. The quality control process may show that additional training and a workload adjustment may be needed to reduce the errors, increase productivity, and support retention—of both customers and employees.

## Section 4 Self-Quiz

**Directions:** Read each statement and select whether it is True or False.

1. The five steps in the risk management process include: Risk Identification, Risk Analysis, Risk Control, Risk Financing, and Risk Administration.

**True**

**False**

The five steps in the risk management process include—Risk Identification, Risk Analysis, Risk Control, Risk Financing, and Risk Administration.

2. The physical inspections method of exposure identification consists of brief visits to critical sites within the organization.

**True**

**False**

Physical inspections are conducted by informational visits to critical sites, both inside and outside the organization, to determine exposures to risk. This is more than just a “drive by.”

3. A detailed diagram of the sequence in which raw materials or goods move through a firm's operations and processes to their final point of production and distribution is an example of the checklists, surveys, and questionnaires method of exposure identification.

**True**

**False**

Detailed diagrams of the sequence in which raw materials or goods move through a firm's operations and processes to their final point of production and distribution is an example of the flowchart method.

4. Loss of a key person would be an example of a loss exposure in the logical category of human resources.

**True**

**False**

In the human resources category for exposures, there is a risk of injury, disability, or death of a key person; as a result, financial hardships may occur and need to be considered.

## Section 4: Risk Management and Agency Processes

**Directions:** Using the terms, “**standard**,” “**procedure**,” and “**workflow**,” fill in the blanks below. You will use each term only once.

1. A task the agency must do or accomplish is known as a procedure.
2. The specific keystrokes and steps that need to be performed in order to complete a procedure is known as a workflow.
3. A stated, acceptable level of performance in every area of the agency’s operations is known as a standard.

**Directions:** Circle the term that best answers the question.

1. Which one of the following is NOT a component of a formal training plan?

**Specific**

**Time-Sensitive**

**Presentable**

**Reviewed**

## Section 4: Risk Management and Agency Processes

**Directions:** Read each question below and select the correct answer.

1. The focus of risk control is on finding and implementing solutions to prevent or reduce actual harm. William is traveling abroad and has the foresight to bring a scanned copy of his passport in addition to the physical passport. Which one of the following risk techniques is this an example of?
  - ☐ Avoidance
  - ☐ Loss prevention
  - ☒ Duplication/separation
2. When the customer knows before the loss that they are financially responsible for all or some of the loss, this is known as:
  - ☒ Active retention
  - ☐ Passive retention
  - ☐ Transfer
3. When the risk management program is implemented, monitored, and changes are made when necessary, this is an example of which step in the risk management process?
  - ☐ Risk Identification
  - ☐ Risk Control
  - ☒ Risk Administration
4. When considering a risk, thinking about how often the loss may occur (frequency) and the severity of the loss are examples of which step in the risk management process?
  - ☐ Risk Identification
  - ☒ Risk Analysis
  - ☐ Risk Control

## Section 5: Managing the Exchange of Coverage Information

# Section 5: Managing the Exchange of Coverage Information

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## Managing the Risks Involved in Information Exchange



### Knowledge Check



Sam is part of a effective team of young professional insurance agents. At his company, he and his fellow teammates rely on each other to get work done, and to promote a healthy workplace culture.

Considering the benefits of effective information exchange, this would be an example of which of the five benefits you learned about? Explain your answer.

This would be an example of promoting team building. A healthy work environment allows team members to be able to rely on each other and creates better relationships with leadership; it builds trust, provides clear expectations, promotes team building, improves productivity.

## Four Types of Information Exchange

### Check-In



For each example, state which type of communication is primarily being used.

	Verbal	Non-verbal	Visual	Written
1. Clara's coworker is making her feel uncomfortable, so she folds her arms across her chest and shifts her gaze toward the ground.		X		
2. Mike creates an infographic to demonstrate a new process to his team.			X	
3. Tina uses videoconferencing software to meet with her team to discuss their monthly sales goals. She asks everyone to speak for two to three minutes.	X			
4. During the monthly sales meeting, Tom wants to share an important update, but doesn't want to interrupt, so he uses the chat function.				X



### Knowledge Check



Consider the scenario from the beginning of this section in which a customer called and was irate because of a lack of communication regarding changes to her policy.

How could the agency improve its overall communications with customers to prevent this type of situation from occurring in the future?

#### Sample Answer:

There are several ways the agency could improve. Some suggestions are to speak with clarity when explaining coverages and policies, and ensure the words used are ones the customer can understand (not industry jargon). Summarize what was said during the conversation to make sure both parties are clear on what was said and heard, what was recommended, and any takeaways and deadlines. The agency should follow up in an email to provide further documentation of the information exchange, and they should document the customer's account in account management system.



# Managing Digital Media in Insurance



## Knowledge Check



The senior vice president of your agency, Amy, tells you she would like to increase the agency's digital media presence but is concerned about the potential risks. Amy asks you to develop a digital media plan that includes ideas for engaging current and potential customers through social media, as well as a risk management plan.

1. Provide Amy with an idea for how your agency might use digital media as a marketing and engagement tool.

### Sample Answer:

The agency could create videos detailing types of coverage and/or how to file a claim; they could post checklists for natural disasters. Digital media is useful for target marketing, sharing customer testimonies, promoting special events, and highlighting the agency's service to the community.

2. Provide Amy with an idea for how you can mitigate the risks associated with digital media marketing.

### Sample Answer:

The agency should establish a written digital and internet policy.

## Section 5 Self-Quiz

**Directions:** Read each statement and select whether it is True or False.

1. Denise logs into a webinar on the subject of life and health insurance. She notices that the chat is disabled, and all participants are automatically muted. Once the speaker is done with the session, everyone logs off. This is an example of one-way communication.

**True**

**False**

Unlike two-way communication, one way communication is linear and limited; it is information passed from the sender to the receiver without any feedback.

2. Scott is at summer camp and wants to write a letter to send back home to his parents. He finds a post card and writes down all of the events of his summer sleepaway adventure. Writing and sending a postcard is an example of verbal communication.

**True**

**False**

Verbal communication is the use of words to share information with other people. This form of communication includes both spoken and written forms. The verbal element of communication is all about the words you choose and how they are heard/interpreted.

3. A client calls you to ask for a re-quote on an insurance policy. The client is frustrated and feels like he pays too much for the coverage he has. Listening to him, you avoid thinking about what you want to say next until your customer is done speaking. Refraining from concentrating on what you want to say next is an example of taking steps towards improving your speaking skills.

**True**

**False**

By avoiding what you want to say next while a person is speaking, you reduce the likelihood that it will interfere with listening to what a customer is saying. This is a step toward improving LISTENING skills.

## Section 5: Managing the Exchange of Coverage Information

4. Sylvia is an insurance agent and wants to broaden her network. If done correctly, it would be beneficial for Sylvia to market her business through various social media platforms.

**True**

**False**

Social media can be an excellent marketing and relationship tool when used correctly. It creates the ability to interact and communicate with clients, prospects, insurance companies, industry associations and vendors, and other resources that can lead to the achievement of your personal and agency goals.

**Directions:** Read each question below and select the correct answer.

1. Select the example below that illustrates non-verbal communication.
  - ☐ Calling your spouse to say you're running late for dinner
  - ☐ Writing an email to your boss letting her know you'll be out of office
  - ☒ Staring-down your colleague after he spoils a surprise office party
2. When proofing communication, there is a three-step process that should be followed. Identify the example below that is NOT part of this process.
  - ☒ Alicia opens her email and begins to compose her message.
  - ☐ When finished, she goes back to look over the content.
  - ☐ Noticing some grammatical errors, she takes the time to fix her text.
  - ☐ When finished, Alicia reviews the correspondence one more time before hitting "send."
3. Each of the following are examples that should be included in an insurance agency's social media or internet use policy, EXCEPT:
  - ☒ Allotted usage time
  - ☐ Confidentiality
  - ☐ No expectation of privacy
  - ☐ Definitions
4. Select the example that best showcases an effort to improve non-verbal communication.
  - ☐ Not interrupting when someone is telling you a story
  - ☒ Maintaining eye contact when a person is speaking to you
  - ☐ After the customer speaks, summarizing what has been said for clarification before answering any questions or offering recommendations
  - ☐ Making physical contact

## Section 5: Managing the Exchange of Coverage Information

5. During a video call, Murphy finds what the speaker is saying to be very funny. To show his support, Murphy drops in a GIF or an animated image of a cartoon character laughing and clapping. This an example of which of the four main forms of communication?

- ☐ Verbal
- ☒ Visual
- ☐ Non-verbal
- ☐ Written

# Section 6: Managing the Agency Workflows and Procedures

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## New Business Development Workflow



### Knowledge Check



Consider the scenario from the beginning of this section in which you have been tasked with generating new commercial business for your agency. Choose two sources that you think would be most effective for identifying new business prospects and explain your answer. Describe the process you would follow to convert leads into prospects and prospects into customers.

#### Sample Answer:

1. You may say that you would choose two from among: producer-generated leads; leads from referrals, associations, or programs; or leads generated from advertising and the internet.
2. To convert the leads into prospects and customers, the next step is to create an action plan. Then, gather information and documentation from the prospect, generate the proposal (sharing information about your agency), and convert the prospect into a customer.

## Account Servicing Skills



### Knowledge Check



Consider the scenario at the beginning of the section in which your team is working to develop a plan for bringing new business to the agency. Because the agency has such a strong focus on acquiring new business, you are finding that account managers are attempting to place new customers with insurance carriers even when those customers do not meet the companies' underwriting guidelines.

1. Explain to your colleagues why it is important to adhere to underwriting guidelines. What are the potential consequences for not abiding by an insurance company's underwriting guidelines?

#### Sample Answer:

The underwriter's rate or rules filed with the insurance departments may legally prohibit any deviation. Sometimes an account's exposure will fall outside of a company's reinsurance program, making it ineligible for coverage by that company. The consequences could be severe and include an E&O situation.

2. Provide an example of a time when it would be acceptable to ask for an exception to a company's underwriting guidelines.

#### Sample Answer:

There are situations when it makes sense for the underwriter to make an exception and agree to provide coverage for a risk that falls outside of the acceptability guidelines. Be sure to provide additional information to support such a request. **Examples include:** If the submission is tied to a large account in the agency; if a claim will fall off shortly after the policy effective date; if updates to property will take place within the first 30 days or so of the account being written; if a child is being written on their own policy; etc.

# Account Servicing Procedures



## Knowledge Check



Your new colleague, Erin, submits an application for a new customer's personal auto policy. After sending the application, Erin leans back in her seat and smiles, "It always feels so good to send off the application and be done with it! It's in the insurance company's hands now!" You are concerned that Erin does not plan to follow up with the insurance company.

1. Explain to Erin the steps she needs to take next, now that the application has been submitted.

### Sample Answer:

The application should have been uploaded to the insurance company within the time frame allowed in the agency's policy and procedures manual, and a follow-up should be set for the issuance of the policy. If the follow-up date arrives and the policy hasn't been received, Erin will need to confirm with the insurance company that the application was actually received before she extends the follow-up date. The next step is checking in to be sure the insurance company process of inspections and recommendations regarding the property in question are received and either met or rejected by the client. Inspections aren't performed on every risk, and companies don't always order an inspection, but if one occurs, Erin needs to ensure compliance with the company's recommendations. If accepted and mandatory requirements are met, binders are then issued, and Erin must check the issued policy against the application to verify the company issued the coverage the way it was submitted.

2. Briefly describe what Erin's role will be when it comes to servicing this account in the future.

### Sample Answer:

To service an existing account, Erin will respond to requests for changes or initiate updates or changes. She will verify the named insured is who is making the change, she will verify the change has been made correctly and update the system, and she will send out a confirmation notice to the client. She will communicate with her clients often to make sure they have the best coverage for their situation.

## Processing Renewal Business



### Knowledge Check



You introduce your new colleague, Sarah, to the renewal list. What actions do you explain to her will need to be taken with the list? Explain to her the opportunities it presents.

#### Sample Answer:

The renewal list should be reviewed to determine which insureds are about to renew. These customers will need to be contacted, and the appropriate manner of contact used will need to be determined—whether through letter, phone call, email, or visit. This is the time to obtain updated information to make sure the renewal policy will provide the needed protection. This is also the ideal time to meet with the insured and discuss recommendations to improve coverage and to discuss new coverages available.



## Section 6 Self-Quiz

**Directions:** Read each question below and select the correct answer.

1. The following are items that need to be accomplished to bring in new business, EXCEPT:
  - ☐ Submit to markets
  - ☐ Establish a plan
  - ☒ Submit endorsement request
  - ☐ Gather account information and document
2. Iris wants to grow her insurance agency by writing new business. She seeks to do so by looking at her existing client base and promoting products that are related or complementary to the existing coverage they have, or that other departments within the agency offer. This is an example of securing new business through:
  - ☒ Account rounding
  - ☐ Producer generated
  - ☐ Advertising/internet
  - ☐ Referrals
3. The quality of the product and pricing you will have available to present to the prospect is dependent on the quality of your submission and the markets selected. Each of the following are examples of when insurance company underwriters are more receptive, EXCEPT:
  - ☐ The applications are accurate, complete, and legible.
  - ☐ The account meets the company guidelines.
  - ☐ A cover letter is included to provide additional details or explanations when needed.
  - ☒ A misrepresentation is made on the application.
4. Sydney is reviewing the business auto application on one of her accounts. Since it is missing some information the underwriter will need to determine renewal coverage and pricing, Sydney should contact:
  - ☐ Sam, a listed driver on the current auto application
  - ☒ Bob Smith, the named insured
  - ☐ Karen, the office manager
  - ☐ Kim, Bob Smith's daughter

## Section 6: Managing the Agency Workflows and Procedures

**Directions:** Read each statement below and select whether it is True or False.

1. When it comes to proposals to customers, it is safe to assume that the more complex the account, the more personalized, detailed, and specific the proposal ends up being.

**True**

**False**

The more complex the account, the more personalized, detailed, and specific the proposal. In these situations, where possible, a face-to-face presentation is always recommended. It is important to understand what the prospect expects and that you provide that where reasonable, as well as offer alternative solutions.

2. Credit scoring is widely used as a part of the underwriting process.

**True**

**False**

Credit scoring is widely used as part of the underwriting process. Each state can individually regulate the use of credit scoring for pricing. Some states prohibit the use of a credit score as the "sole" reason for declining to write the insurance.

3. The renewal process should begin 30 days from policy expiration date.

**True**

**False**

Renewal process should start a minimum of 90-120 days from policy expiration date.

4. The agency's proposal should contain only the premium quoted for the prospect to review.

**True**

**False**

The agency's proposal should contain a summary of coverages using policy language and disclaimer if needed, info about the agency if possible, and the premium.

# Section 7: Account Management

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## Financial Statements

### ▶▶ Knowledge Check



Consider the scenario from the beginning of this section in which your coworker, Alex, was upset that account managers will undergo training on how to read and use financial statements.

Explain to Alex why evaluating a potential customer's financial condition is an important piece of the underwriting process. Describe two basic tools that can be used to review the financial data.

#### **Sample Answer:**

Financial tools like the balance sheet and the profit and loss or income statement are used in the underwriting process, especially in commercial lines. Knowledge of these financial tools, including their purposes and the kind of information each contains, helps in the evaluation of the financial state of an insured. There can be a direct correlation between the financial condition of insureds and their loss history or experience. Insureds undergoing financial difficulty are more likely to experience an increase in both loss frequency (how often) and loss severity (how much), since they may not have the money needed to pay for routine maintenance or repairs.

# Billing Types



## Knowledge Check



Explain the differences between direct billing, agency billing, and premium financing.

**Sample answer:**

Direct billed policies are those the insurance company is responsible for communicating with the customer about, such as making premium billings and sending late notices and notices of cancellation.

Agency billed policies are those billed by the insurance agency. The agency is responsible for collecting the premium for new business, renewals, and endorsements, and then submitting the net premium (gross premium less commission) to the insurance company.

If a customer cannot pay the entire premium when billed by the agency, a payment plan is requested as well as third-party insurance. With an agency bill policy, the agency may offer payment terms to the customer through a premium finance company rather than have the customer pay the full premium at policy inception. A finance agreement (signed by the insured) is sent to the finance company along with the required down payment. The insured then makes scheduled payments to the finance company.

## Providing Evidence of Insurance



### Knowledge Check



Explain the difference between a certificate of insurance and an insurance binder.

#### Sample Answer:

The purpose of the certificate of insurance is to notify an interested party that insurance coverage is in place. Unlike an insurance binder, the certificate is not a contract or legal document.

An insurance binder is a temporary insurance contract that should not be issued without careful underwriting attention. A binder should only be issued when coverage has been placed in accordance with the agency's binding authority as specified in the agency agreement, or with permission of the insurance company.

## Claims Processing



### Knowledge Check



One of your commercial clients, Hank Harper, enters your agency and is distraught because he needs to file a claim for water damage at his restaurant. Hank is very upset and worried about the cost of repairs and potential loss of revenue for his business. Based on what Hank is saying, describe the steps you would take to handle the situation.

1. The insured (Hank) reports the claim.
2. The agency takes the claim information.
3. The agency informs Hank of the policy conditions.
4. The agency reports the claim to the company.
5. The agency makes a record of the claim in the claims log and documents the customer's file.

# Service Centers

## ▶▶ Knowledge Check



Your agency is considering using a service center, and the agency leadership has asked for your input. List two potential benefits of using a service center, as well as two things leadership should consider before entering into the service center agreement.

### Sample answer:

1. **Benefits:** There are many benefits to the agency when using service centers. Any of the following apply:
  - remove service responsibilities and more of the routine tasks from the agency staff so they can use that time for selling
  - reduce personnel in the agency
  - offer extended service hours to the customer
  - reduce E&O exposures
  - in the event the agency is not able to operate, calls can be diverted to the service center
2. **Considerations:** Some of the risks agency leadership should consider include:
  - Will the service level meet our agency's expectations?
  - Does the agency have procedures in place to receive prompt notification of the transactions the service center has handled?
  - Is retention being monitored to determine the impact on the book of business?
  - Are errors being tracked by the agency management system?

## Section 7 Self-Quiz

**Directions:** Select the correct letter to match each term with the appropriate definition.

<b>A.</b> Direct billed	<u>  <b>C</b>  </u> Policies for which the insurance agency is responsible for collecting premium and sending the net to insurance company
<b>B.</b> Profit and loss statement	<u>  <b>D</b>  </u> A temporary insurance contract that should not be issued without careful underwriting attention
<b>C.</b> Agency billed	<u>  <b>F</b>  </u> Used by agencies to assist with handling more routine aspects of a book of business
<b>D.</b> Insurance binder	<u>  <b>A</b>  </u> Policies for which the insurance company is responsible for collecting premium
<b>E.</b> Balance sheet	<u>  <b>E</b>  </u> A “snapshot” of the financial condition of the individual or organization on the date it was created
<b>F.</b> Service centers	<u>  <b>B</b>  </u> Summarizes financial results over a period of time

**Directions:** Read each statement below and select whether it is True or False.

1. The three components to the balance sheet are: assets, liabilities, and losses.

True

False

The three components to the balance sheet are assets, liabilities, and equity. Assets – Liabilities = Equity

2. The profit and loss statement can provide a financial picture over a chosen period of time.

True

False

A profit and loss statement for one year will not paint a complete financial picture. It is better to have at least three years of statements to enable you to identify historical trends.

## Section 7: Account Management

3. If a customer is unable to pay the entire premium when billed by the agency, the agency may offer payment terms to the customer through a premium finance company.

**True**

**False**

With an agency bill policy, the agency may offer payment terms to the customer through a premium finance company rather than have the customer pay the full premium at policy inception. A finance agreement (signed by the insured) is sent to the finance company along with the required down payment. The insured then makes scheduled payments to the finance company.

4. The certificate of insurance is not a contract or a legal document.

**True**

**False**

The certificate of insurance is one way to notify an interested party that insurance coverage is in place. Unlike an insurance binder, the certificate is not a contract or legal document. The holder of a certificate is not a party to the insurance contract and has no rights or privileges under the contract. The certificate is issued to a third party for information purposes only.

5. The evidence of property insurance form amends, extends, or alters the coverage or insuring terms provided by the policy identified.

**True**

**False**

The evidence of property insurance form, designed by ACORD, appears different from the certificate of insurance, but the purpose is the same. Unless already granted under the terms of the policy, the holder of the form is not a party to the insurance contract and has not been extended rights or privileges under the contract. The form does not amend, extend, or alter the coverage or insuring terms provided by the policy identified.

6. A binder should only be issued when the coverage has actually been placed in accordance with the agency's binding authority as specified in the agency agreement or with permission of the insurance company.

**True**

**False**

A binder should only be issued when the coverage has actually been placed in accordance with the agency's binding authority as specified in the agency agreement or with permission of the insurance company. The improper use of binders has become a major cause of agents' E&O claims.



## Section 7: Account Management

7. When it comes to claims reporting, after the insured reports a claim, the next step is to inform the insured of the policy conditions.

**True**

**False**

After the insured reports a claim, the next step is to take the claim information using the ACORD loss notice/claim form.

## Section 8: Errors and Omissions

## Section 8: Errors and Omissions

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### Negligence



#### Knowledge Check



Consider the scenario at the beginning of this section, in which you forgot to submit George's application for a personal auto policy on time, and he was left without coverage after an accident.

Is this an example of negligence? Why or why not?

#### Sample Answer:

Yes, this is a clear case of negligence. You owe George a duty of care as account manager, and you breached that duty by not following up and submitting his application in a timely way. George suffers uncovered damages to his auto, which are a direct result of your inaction and his loss of coverage.

## Common Causes of E&O Claims



### Knowledge Check



Explain one common cause of claim brought against the agent by the insured and one common cause of claim brought by the insurance company.

#### Sample Answer:

A common cause of claim brought by the insured: Failure to obtain proper coverage, give proper advice, or maintain or renew coverage; the coverage is not placed on best terms and conditions; coverage is not placed in a timely way after binding; the customer is not promptly advised on coverage rejection or lack of coverage; the agent serviced the customer's policy improperly; the agent placed coverage with insolvent carrier; the agent made a misrepresentation of fact; the agent modified established services; the agent made a clerical error.

A common cause of claim brought by the insurance company: the agent exceeds binding authority; the agent fails to process claim properly; the agent fails to notify the carrier of a material change in risk; the agent misrepresents the risk to the carrier.

Examples of any of the above would be acceptable as response too.

# Agency Defense Activities



## Knowledge Check



An irate customer calls your agency because a claim on their Homeowners insurance policy was denied. The customer says your agency did not provide them with the proper coverage and that their home was undervalued and underinsured as a result. As the account manager who bound the policy and submitted it to the company to issue, you check your records and see that you have conducted the policy-check in the workflow and confirmed the insured was issued the

coverage they agreed to on the signed application.

The customer has advised they are suing the agency. What steps should you take to prepare?

### Sample Answer:

With any possibility of a lawsuit against the agency, the agency should begin preparing by working through the defense steps. With the customer's call and accusations, the agency begins reviewing the customer's file, which the account manager has started by pulling relevant documentation. Next, the agency reports the claim to the agency's E&O carrier and assigns one person to act as coordinator throughout the potential E&O claim. The agency then engages all involved personnel immediately, while maintaining strict confidentiality, to document in writing what supporting documents are in the customer's file and each person's involvement. With the assistance of legal representation, witnesses are prepared, and the agency ensures that no operating procedures are changed while the investigation is open. Once the situation is resolved, the agency will be advised on the outcome and should conduct a debrief with those involved in the claim.

## Section 8 Self-Quiz

**Directions:** Select the correct letter to match each term with the appropriate scenario that reflects a common claim made against insurance agents.

<p><b>A.</b> Failure to maintain or renew coverage</p> <p><b>B.</b> Making a clerical error</p> <p><b>C.</b> Failure to service policies</p> <p><b>D.</b> Misrepresenting the risk</p> <p><b>E.</b> Failure to place coverage after agreeing to it</p>	<p><u>  <b>E</b>  </u> Emma, an insurance agent, receives a request to bind coverage. She has all the requisite paperwork in her inbox and will get to it on Monday, when back in the office. Over time, the paperwork gets buried in Emma's inbox; the client calls asking why there is a delay in obtaining coverage.</p>
	<p><u>  <b>C</b>  </u> Marco's Insurance Agency fails to notice that one of their clients, Bob, does not carry the underlying limits required by the umbrella policy. A loss occurs, making Bob responsible for the gap in coverage.</p>
	<p><u>  <b>D</b>  </u> Gerry, an insurance agent, does not disclose information to the carrier that a client has vacated his primary residence, and the home has been vacant over 30 days.</p>
	<p><u>  <b>B</b>  </u> Isaac, an insurance agent, fails to mark replacement cost on the application. The property has a loss and is now subject to paying actual cash value. The error is discovered after the loss occurs.</p>
	<p><u>  <b>A</b>  </u> Stefanie, an insurance agent, is behind on her renewal listings that are agency billed. As a result, a few of her clients are left without coverage after their policies expire.</p>

## Section 8: Errors and Omissions

**Directions:** Read each statement below and select whether it is True or False.

1. In order for negligence to have occurred, there must be four elements involved. “Duty owed to another party” is one of the elements.

**True**

**False**

There are four elements required for negligence to have occurred.

- There must be a duty owed to another party.
- There must be a breach of that duty.
- There are damages—an actual loss or injury must occur.
- There has to be a proximate cause or cause-and-effect relationship between the duty and the loss or injury.

2. Failure to use a degree of care that is considered unreasonable under a given set of circumstance describes the term, **negligence**.

**True**

**False**

Failure to use a degree of care considered REASONABLE under a given set of circumstance describes the term, negligence.

3. The agency telling an insured that their policy provides coverage for something when it doesn't is an example of **misrepresentation**.

**True**

**False**

Neglecting to tell a customer that their policy covers or does not cover something is problematic and can lead to misrepresentation. The same is true for telling an insured that their policy provides coverage for something when it doesn't.

4. When an E&O issue occurs, the incident should be discussed with everyone in the agency, whether they are involved or not.

**True**

**False**

The E&O incident should not be discussed within the agency except by those who are directly involved, nor should it be discussed outside the agency.

## Section 8: Errors and Omissions



# Appendix

## Appendix

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## Preparing for the Final Exam

For many learners, test preparation is stressful. Please keep in mind that the most important measure of your knowledge will be witnessed in your service to your organization. Think of a test as a tool. Use it to come to an understanding of what you know, how it affects your work, and what more you would like to know to have even greater success in the workplace.

The testing period for the Final Exam is sixty-five minutes long. The test itself is composed of 50 multiple-choice questions that ask you to demonstrate what you know. Each question is worth two points. To pass, you are required to earn a minimum of 70 out of 100 possible points. Questions appear in the order of presentation of the topics.

Remain aware of the time as you take the test. Pace yourself and be aware that unanswered questions are considered incorrect.

## Study Techniques

There are some techniques you can use to help you prepare for the end-of-course test. Apply the same techniques to each chapter in your learning guide.

1. Review the Section Goal.
2. Review each Learning Objective.
3. Change each header and subhead into a question. Then answer the question. For example,  
Header: Components of a Formal Training Plan  
Question: What are the components of a formal training plan?
4. Review each diagram, graph, and table. Interpret what you see. Ask yourself how it relates to a specific Learning Objective.
5. Check your answers to each Check-In. Correct your original answers, if necessary.
6. Check your answers to each Knowledge Check. Consider ways to improve your original answers.
7. Re-read the summary at the end of each section.
8. Check your answers to each question in the Self-Quizzes at the end of each section. Correct your original answers, if necessary.

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9. Review any comments, highlights, or notes you made in each section.
10. Rewrite important ideas in your own words. Find ways to connect those ideas to your own work experiences.
11. Make flash cards to help you review important vocabulary.

### Sample Test Questions

The end-of-course test has a variety of questions similar to the ones you see below.

1. Each of the following is one of the four major classification of exposures to loss, EXCEPT \_\_\_\_\_.
  - A) human resources
  - B) property
  - C) avoidance
  - D) liability
2. Which of the following statements is correct regarding an insurance binder?
  - A) An insurance binder should be issued when an underwriter has declined the risk.
  - B) An insurance binder should be issued when coverage has been placed and is in force.
  - C) An insurance binder can be used to provide coverage in place of an endorsement or certificate of insurance.
  - D) There is no need to forward copies of insurance binders to the insurance company.

**Sample 1:** The correct answer is C, avoidance.

**Sample 2:** The correct answer is B, An insurance binder should be issued when coverage has been placed and is in force.

# Glossary of Terms

**account current statement** a report submitted to the insurance company by the insurance agency which gives an accounting of the policies billed and shows the gross premium, commission, and net premium due

**account rounding** selling new coverage to an existing customer; also known as cross selling

**admitted company** an insurance company operating within the standard market; licensed by the state with forms and rates regulated; financial condition is monitored by the insurance department of the state in which they are licensed or domiciled

**agency billed policies** those policies billed by the insurance agency; this makes the agency responsible for collecting the premium for new business, renewals, and endorsements and then submitting the net premium to the insurance company

**assets** what is owned and what has accumulated; assets could include cash, accounts receivables, investments, buildings, business property, inventory, and so on.

**automated workflow** a series of tasks created automatically when a specific event occurs

**balance sheet** a “snapshot” of the financial condition of the individual or organization on the date it was created; it shows details on what is owned (assets) and what is owed (liabilities)

**brand** a summary of the agency’s values, vision, and mission statements expressed in both the marketplace and community, helping to position its products and services and communicate its image

**captive agent** also known as an exclusive agent; an agent who works for one insurance company, and therefore is limited to only selling policies for that company, or for a group of companies under common ownership or control

**captive insurance company** a company owned and controlled by their insureds; typically providing coverage for property and casualty exposures; may be formed for a single entity (parent captive) or by multiple entities (group captive)

**ceding company** the primary company that transfers part of its liability to another company, called a reinsurer

**certificate of insurance** a way to notify an interested party that insurance is in place; it is not a contract or a legal document

**claims log** an agency’s record of claims

**client focused** technology and automation are fully implemented allowing more time to focus on the customer and achieve increased productivity

## Appendix

**communication** the activity of conveying information between two or more individuals; an exchange of information through verbal communication like speaking or writing, or non-verbal communication such as listening, visual media, or behavioral cues

**contract** an agreement between two or more parties which creates an obligation to do or to not do something

**cross selling** also known as account rounding; selling new lines of insurance to existing customers

**culture** the behaviors and attitudes of the organization and its employees

**direct billed policies** those policies which the insurance company is responsible for communicating directly with the client regarding premium billing, late notices, and notices of cancellation, etc.

**endorsements** changes to a policy, such as additional coverages

**equity** the difference between assets and liabilities; if all the assets were sold and all the liabilities paid, the equity would be the remaining money or what is left

**estoppel** the insurance company is “stopped” from denying the agent’s authority when it has allowed that same activity in the past without taking any corrective action

**ethics** a system or set of moral principles or practice

**evidence of property insurance form** designed by ACORD, this is another way to notify an interested party that insurance is in place; does not confer extended rights or privileges, and does not amend, extend, or alter the coverage or insuring terms provided by the policy

**excess and surplus lines broker** an agent who is licensed by the state to sell property and casualty insurance through a non-admitted insurer

**expenses** all expenses incurred to generate income; in an insurance agency, expenses could include compensation expenses, business development expenses, operating expenses, etc.

**exposure** a situation, practice, or condition that may lead to an insured’s susceptibility to adverse financial consequences or loss

**facultative reinsurance** a form of reinsurance that uses offer and acceptance of individual risks in which, under a contract of reinsurance, the reinsurer retains its faculty (the ability) to accept or reject each risk offered by the ceding company

**FAIR Plan** Fair Access to Insurance Requirements Plan; makes fire insurance available to those who are unable to obtain it through other markets

**Federal Crop Insurance Corporation (FCIC)** improves the economic stability of agriculture through a sound system of crop insurance; it also provides the means for the research and experience necessary in devising and establishing such insurance

## Appendix

**fiduciary** one who must exercise a high standard of care in managing another's property or money

**government programs and pools** a means of handling risks admitted companies will not write, either because those risks fail to meet the underwriting criteria or because the exposure to loss is catastrophic in nature, such as flood or earthquake

**Guaranty Fund** a fund established in some U.S. states to protect business written and will step in to make payments on claims as necessary

**independent agent and independent agency system** agents represent and work with various insurance companies and have the ability to compare, offer, and sell policies and services from the multiple companies they represent

**insurable interest** when the person seeking insurance would suffer a financial loss or experience a hardship if the object to be insured was damaged or lost

**insurance binder** a temporary insurance contract that should not be issued without careful underwriting attention

**interpersonal skills** behaviors and tactics used to serve and interact effectively with others

**liabilities** what is owed to others and the cost of accumulating the assets; liabilities could include mortgages, accounts payable, debts, and so on.

**manual transition** the agency has minimal reliance on technology and automation

**managing general agent** a wholesale intermediary that represents one or more insurance company who accepts business on behalf of his/her principal within mutually agreed upon guidelines and may have the authority to appoint agents within a specific geographical area

**McCarran-Ferguson Act** passed by Congress in 1945, this act returned responsibility for insurance regulation back to the states, giving them preeminence over federal laws in protecting consumers and ensuring that promises made by insurers are kept

**mission statement** action-based statement that declares what the agency does, how it intends to connect with and serve customers, and reveals what makes the agency unique

**mutual company** a type of insurance company owned by the policyholders (there are no stockholders); the goal is to provide insurance at or near the actual cost of doing business

**named insured** the individual or entity specifically designated by name as an insured in the insurance policy

**National Flood Insurance Program (NFIP)** one of the largest property insurance programs; administered by the Federal Insurance Administration under the Federal Emergency Management Agency (FEMA); flood is excluded on most property insurance programs so customers in flood-prone areas can obtain coverage through NFIP

**national insurance company** an insurance company that conducts business across the U.S.

## Appendix

**non-admitted company** used by an agency to insure difficult-to-place risks that admitted carriers often cannot afford to cover

**P.I.N.E.S.** an acronym useful for remembering what the insured must do, according to typical policy conditions: Protect, Inventory, Notify, Exhibit, Submit

**premium finance company** finances premium payments for an insurance customer when the customer is unable to pay the entire premium billed by the agency

**procedure** defines the tasks the agency must perform or accomplish to achieve a stated standard; who, what, and when should be identified within the procedure

**process focused** the agency is beginning to utilize technology to enhance service and allow staff to work more efficiently

**producer** employee at an insurance agency who handles sales; in some cases, a producer may act as an agent for some customer relationships and as a broker for others

**professional** describes appearance, attitude, and/or actions; performing in a competent and honest manner that includes being knowledgeable and using that knowledge for the benefit of clients

**profit or loss** the difference between income and expenses; income minus expenses equals profit or loss; when income exceeds expenses, the result is a gross profit

**profit and loss statement** summarizes the financial results of a business over a period of time; may be created for a month-end, quarter-end, or year-end; also called an income statement

**quality control** a process through which the agency seeks to ensure product and service quality is maintained or improved, based on its standards

**referral selling** selling new lines of coverage to others who have a business or personal relationship with existing customers

**reciprocal exchange company** groups of individuals or organizations (subscribers) who join together into an association for the purpose of insuring one another; managed by an attorney-at-fact

**regional insurance company** an insurance company that conducts business only in states located in a specific geographic region

**reinsurance** the process of transferring risk from one insurer (the primary insurer) to another insurer (the reinsurer)

**reinsurance company** the company that accepts the liabilities of another insurance company (the ceding company, the one that transfers the risk) for a stated premium

**reservation of rights letter** used when an insurance company agrees to investigate a claim or suit and to defend the insured while retaining the right to deny coverage at a later time



## Appendix

**revenues** various sources of income such as sales, service, consulting; in an insurance agency, sources of income could include commercial lines commission, personal lines commission, life and benefits commission, contingent income, fee income, and so on.

**risk** a condition of either positive or negative uncertainty arising from a given set of circumstances

**risk management** the process of making and carrying out decisions that will minimize the adverse effect of risk on an organization

**risk retention group** an insurance company in which each of the policyholders is also a stockholder (owner)

**service focused** the agency is now at the stage where the use of technology and automation is essential and is the primary source of information and documentation

**SMART goal** a goal which is Specific, Measurable, Attainable, Relevant, and Time-based

**standard** a stated, acceptable level of performance in every area of the agency's operations

**statement billing** statement produced monthly by the insurance company and sent to the insurance agency for collection of premium

**stock company** a type of insurance company owned by its stockholders which operates with the goal of making a profit for those stockholders

**subrogate** holding the agent responsible for paying back the insurance company for a claim it did not intend to insure

**subscribers** groups of individuals or organizations join together as a part of a reciprocal exchange company

**suit and summons** legal notice that a lawsuit is being filed against the insured (defendant)

**transacting insurance** the activities of explaining or discussing coverage, presenting quotes, completing applications, and binding coverage

**treaty reinsurance** when the insurance company (the ceding company—the primary company that transfers part of its liability to another company) agrees to transfer (cede) certain classes of business to the reinsurance company

**values statement** defines the heart of the organization; an expression of the core priorities and behavioral issues that matter most to the agency's management; answers the question, "What do we stand for?"; specifies what are the current and future goals of the agency

**wind and/or hail pools** formed when insurance companies were unwilling to provide wind and/or hail coverage in areas with catastrophic exposure for damage from hurricanes or other windstorms

**workers' compensation assigned risk** for those employers unable to buy workers' compensation insurance through other markets; not available in all states

## Appendix

**workflow** describes the specific keystrokes and steps that need to be performed in order to complete a procedure