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Chapter 9

Lines of Insurance

The Major Lines

A line of authority (LOA) is a general subject area of insurance that a producer can be licensed to sell. The *Producer Licensing Model Act* (#218) identifies and defines seven LOAs; however, the Uniform Licensing Standards (ULS) set forth six lines that are considered major lines of authority, as well as certain core limited lines. Additionally, the ULS set forth standards for non-core limited lines. States should review all other lines of insurance and consider eliminating them in an effort to become compliant with the ULS.[1] Uniform adoption of the major lines is essential to fully implement NAIC licensing reforms.

The six major LOAs are defined in Model #218 as follows:

1. Life – Insurance coverage on human lives, including benefits of endowment and annuities, and may include benefits in the event of death or dismemberment by accident and benefits for disability income.
2. Accident and health or sickness – Insurance coverage for sickness, bodily injury or accidental death, and may include benefits for disability income.
3. Property – Insurance coverage for the direct or consequential loss or damage to property of every kind.
4. Casualty – Insurance coverage against legal liability, including that for death, injury or disability, or damage to real or personal property.
5. Variable life and variable annuity – Insurance coverage provided under variable life insurance contracts and variable annuities.
6. Personal lines – Property/C~~c~~asualty (P/C) insurance coverage sold to individuals and families for primarily noncommercial purposes.

Because the ULS also require that each major line be available individually, the states should provide individual examinations for each of the major lines except variable life and variable annuity. It is acceptable for a state to also offer combined exams. The ULS contemplate that each state will require an examination for residents to qualify for all major lines. States should give examinations only to residents, not nonresidents.

While the ULS do not specifically prohibit an examination for variable life and variable annuity products, most states do not require an examination. This LOA is usually granted if the applicant holds a life LOA and has successfully completed the Financial Industry Regulatory Authority (FINRA), formerly known as the National Association of Securities Dealers (NASD), examinations necessary to obtain a state securities license in that state. In most cases, this means successful completion of the FINRA Series 6 and/or Series 7, according to the specific state's requirements, and/or Series 63 exams.

The Producer Licensing (D~~EX~~) ~~Working Group~~Task Force has not specifically stated that states should not require an active state securities license of residents or nonresidents as a condition of granting the variable life and variable annuity products LOA. The ULS do contemplate that no such requirement shall be imposed. For nonresident applicants, it is not appropriate to pend a request for the variable life/annuity products LOA to verify existence of the underlying life LOA in the home state. If a proper request for licensure is received and the applicant is in good standing in the home state with the variable life and variable annuity LOA, the nonresident license should be granted. If a state cannot verify through the State Producer Licensing Database (SPLD) that the applicant holds a variable authority, it is permissible to pend the application and contact the applicant's home state to verify the variable authority.

Information regarding an applicant's status as to securities registration and securities examinations passed currently are easily accessible on FINRA's public BrokerCheck website ~~under "Check Out Brokers & Advisors"~~ at https://brokercheck.finra.org/~~www.finra.org/InvestorInformation/index.htm.~~ Information available includes: employment history, states where the individual is securities licensed, securities examinations passed, and formal and final disciplinary history. To obtain

[1] Model #218 does not address title insurance, which is considered a major line by some of the states and a limited line by others.

Central Registration Depository (CRD) information regarding pending complaints and unresolved cases, a state insurance department must contact its state's securities regulator.

Recommended Best Practices for State Insurance Regulators
• Adopt the major lines and the definitions exactly as stated in Model #218, and provide separate testing for each line, except variable. • Allow combined examinations, as appropriate.

Limited Lines

A limited line of insurance is a line of insurance that covers only a specific subject matter. Limited line licenses generally have simpler licensing requirements than those required by the major lines. Some states require an examination for credit insurance. For the other limited lines, some states require an examination, while some require only a simplified application process. In some states, a business entity is permitted to maintain a limited lines license on behalf of individuals who make the limited line of insurance available to its customers. Often, a limited line is adopted by regulation and not by statute.

Model #218 contains a specific definition for credit insurance and allows states to define other limited lines. The Working Group adopted definitions for specific "core" limited lines of insurance for producers, which have become part of the ULS. States are encouraged to adopt the definitions of those limited lines and review and eliminate as many non-uniform limited lines as possible. Model #218 requires the states to grant to a nonresident a nonresident limited line producer license with the same limited LOA as the license issued by the home state. Many states have adopted a special licensing category to accommodate this type of situation.

The core limited lines are:

1. Car rental insurance.
2. Credit insurance.
3. Crop insurance.
4. Travel insurance.

The ULS provide that examinations are not generally required for limited lines, but it is acceptable for examinations for areas such as crop and surety. States should give examinations only to residents, not nonresidents. The ULS specifically state that continuing education (CE) is required for only the major lines of insurance (see specifics for crop insurance).

In 2009, the Working Group was charged with reviewing limited line licensing issues, with particular focus on: 1) the establishment of a limited line that encompasses several insurance products where the business of insurance is ancillary to the business of the person offering the product; 2) the licensing requirements of individuals selling limited line products; and 3) the fingerprinting of individuals selling limited line insurance products. Throughout the year, the Working Group had discussions; however, no consensus was achieved. As a result, the Working Group reported to the Producer Licensing (EX) Task Force and requested further guidance on its charge. For 2010, the Working Group was asked to:

> Finalize the review of limited-line licensing issues, with particular focus on the following: 1) individually review the licensing requirements for each core limited line; 2) review other limited lines, and determine what licensing requirements should apply to them; and 3) determine if another "catch all" limited line was needed to address licensing requirements for insurance products not already encompassed within the list of limited lines.

Updates to the limited line charge may be obtained on the Producer Licensing Uniformity (~~EX~~D) Working Group's web page on the NAIC website.

The NAIC has adopted a specific resolution rejecting a prior request by industry to adopt a new limited line for term life insurance. The full text of the resolution is in the Appendices.

As part of its 2010 charges, the Working Group conducted a review of the ULS and adopted several amendments. Specifically related to this chapter, revisions were made to Standard 16 (Lines of Authority), Standard 33 (Definition of Core Limited Lines), Standard 34 (Travel), and Standard 37 (Non-Core Limited Lines).

Recommended Best Practices for State Insurance Regulators

- Allow resident and nonresident limited lines license applications to be filed electronically.
- Eliminate state-specific applications.
- To further reciprocity, report all limited lines licensees to the SPLD.
- Adopt the applicable revisions to the ULS related to limited lines.

A. Limited Line of Car Rental Insurance

Under the ULS, car rental insurance is defined as:

> [I]nsurance offered, sold or solicited in connection with and incidental to the rental of rental cars for a period of [per state law], whether at the rental office or by pre-selection of coverage in master, corporate, group or individual agreements that (i) is non-transferable; (ii) applies only to the rental car that is the subject of the rental agreement; and (iii) is limited to the following kinds of insurance:
>
> (a) Personal accident insurance for renters and other rental car occupants, for accidental death or dismemberment, and for medical expenses resulting from an accident that occurs with the rental car during the rental period.
>
> (b) Liability insurance that provides protection to the renters and other authorized drivers of a rental car for liability arising from the operation or use of the rental car during the rental period.
>
> (c) Personal effects insurance that provides coverage to renters and other vehicle occupants for loss of, or damage to, personal effects in the rental car during the rental period.
>
> (d) Roadside assistance and emergency sickness protection insurance.
>
> (e) Any other coverage designated by the insurance commissioner.

States vary in their methods of supervising the sale of car rental insurance. In the states that require a license, there are generally three methods in use. The first is a registration requirement through submission of an application. The second is the successful completion of an exam and submission of an application. States should give examinations only to residents, not nonresidents. Under the third method, a car rental company registers with the state insurance department. The company holds the license and is responsible for supervising the training and testing of its counter agents. The company reports to the department and pays all fees.

B. Limited Line of Credit Insurance

Model #218 defines limited lines credit insurance as:

> Credit life, credit disability, credit property, credit unemployment, involuntary unemployment, mortgage life, mortgage guaranty, mortgage disability, guaranteed automobile protection insurance or any other form of insurance offered in connection with an extension of credit that is limited to partially or wholly extinguishing that credit obligation and that is designated by the insurance commissioner as limited line credit insurance.

Credit insurance products are designed to protect the borrower against the risk of not being able to pay a debt. Credit life, disability and involuntary unemployment insurance are typical lines of coverage. These products are generally made available by the creditor at the time the loan transaction occurs. Because the insurance is purchased at the time the borrower completes the loan, policy and certificate forms, premium structures, and underwriting conditions are generally simpler than other limited lines of insurance.

Credit insurance is issued under individual and group policies. This allows market flexibility for different distribution systems and variations in product design to insure the different types of credit risks. If an individual enrolls customers under a group insurance policy, the individual must obtain a limited lines license if a commission is paid. Section 4(B)(2) of Model #218 provides an exception from licensing if no commission is paid to the enroller and the enroller does not engage in selling, soliciting or negotiating.

Section 6(D) of Model #218 provides that each insurer that sells, solicits or negotiates any form of limited line credit insurance shall provide its producers a program of instruction that may be approved by the insurance commissioner.

Recommended Best Practices for State Insurance Regulators

- A state should establish a method to verify that each credit insurer has established a program of instruction.

C. Limited Line of Crop Insurance

Under the ULS, crop insurance is defined as:

> Insurance providing protection against damage to crops from unfavorable weather conditions, fire or lightning, flood, hail, insect infestation, disease, or other yield-reducing conditions or perils provided by the private insurance market, or that is subsidized by the Federal Crop Insurance Corporation (FCIC), including multi-peril crop insurance.

There are two types of crop insurance: multiple peril crop insurance (MPCI) and crop/hail insurance.

The federal government is involved with crop insurance because a single event, such as drought, often results in multiple losses. Automobile accidents or health problems are generally independent, random events that do not trigger multiple insurance losses. For crop insurance, multiple losses are the norm, rather than the exception. For many years, capital requirements to maintain adequate reserves to cover widespread losses were so high that commercial development of MPCI policies by companies was unrealistic. As a result, the federal government created a federally subsidized risk management program.

Multiple Peril Crop Insurance

An MPCI policy provides protection against crop losses from nearly all natural disasters, including: adverse weather conditions; fire; insects, but not damage due to insufficient or improper application of pest control measures; plant disease, but not damage due to insufficient or improper application of disease control measures; wildlife; earthquake; volcanic eruption; or failure of the irrigation water supply if due to an unavoidable cause of loss occurring within the insurance period.

MPCI is subsidized by the federal government and delivered by private insurance companies. The insurer's functions include hiring and training producers, paying for marketing and advertising, hiring and training loss adjusters, carrying out loss adjustment activity, billing and collecting premiums, processing and verifying applications, conducting actual production history reviews, processing and verifying acreage reports, paying claims, auditing and verifying claims data, paying uncollected premiums, and maintaining the necessary automated data processing infrastructure to communicate data with the Risk Management Agency (RMA) on a routine basis for all MPCI policies.

The MPCI policy is a contract between the producer and the insurance company, not with the federal government. However, a farmer cannot receive the federal subsidy attached to the program unless the insurance policy followed the federal standards and rates. Like many insurance companies, crop insurance companies have reinsurance agreements to transfer risk to other private companies known as reinsurers. Unlike most other insurance lines, the private insurance companies also transfer some of the risk associated with the crop insurance program directly to the federal government.

There are many MPCI plan options available: yield-based, revenue-based, or a combination of both. The basic policy provisions for all these plans, as well as the rates, are set by the FCIC. A combination of commodity markets results and the U.S. Department of Agriculture (USDA) establish the maximum price for each crop each year for insurance purposes; i.e., the value of each bushel in the event of loss.

While the RMA controls pricing and policy forms, producer licensing and enforcement of proper sales practices are left to the states.

Crop/Hail Insurance

Crop/hail insurance is offered through companies licensed by state insurance departments. A private market has existed for crop/hail insurance for more than a century. Companies have developed stand-alone full coverage and deductible crop/hail policies, as well as companion policies that function very well in conjunction with the different MPCI plans that are offered at varying coverage levels. The premium rates for these crop/hail policies are determined by historical loss experience and are set by the companies.

Continuing Education

Subsequent to the adoption of the ULS, the Working Group considered and agreed that a CE requirement for crop insurance shall not be a violation of the uniform standards. Under federal law, insurance producers selling MPCI are required to attend CE classes each year.

D. Limited Line of Surety

As part of the discussion of limited lines, the Working Group made the determination to remove surety as a limited line. Although this determination was made, it is understood that surety is considered a major line by some of the states and a limited line by others.

E. Limited Line of Travel Insurance

Under the ULS, as revised Aug. 6, 2010, travel insurance is defined as:

> Insurance coverage for personal risks incidental to planned travel, including, but not limited to:
>
> 1. Interruption or cancellation of trip or event.
> 2. Loss of baggage or personal effects.
> 3. Damages to accommodations or rental vehicles.
> 4. Sickness, accident, disability or death occurring during travel.

Travel insurance does not include major medical plans, which provide comprehensive medical protection for travelers with trips lasting six months or longer, including, for example, those working overseas as ex-patriot or military personnel being deployed.

Standard 34 recognizes and sets the guidelines for the creation of an additional business entity licensing model under the travel limited line licensing structure. This structure creates the concept of a “travel retailer” in which the entity and a certain number of its employees may disseminate travel insurance under the direction of a responsible licensed producer. Said producer maintains responsibility for the training and conduct of any and all associated travel retailer(s).

Recommended Best Practices for State Insurance Regulators

- A state adding the travel limited line should do so in accordance with applicable ULS.

F. Non-Core Limited Lines

After much discussion about the concept of "auxiliary" or "miscellaneous" lines, the Working Group formally adopted Standard 37 as a basis for any future addition of other non-core limited line. The standard states, in part, that:

A state is not required to implement any non-core limited line of authority for which a state does not already require a license or which is already encompassed within a major line of authority; however, the states should consider products where the nature of the insurance offered is incidental to the product being sold to be limited line insurance products. If a state offers non-core limited lines (such as pet insurance or legal expense insurance), it shall do so in accordance with the following licensing requirements. Individuals who sell, solicit or negotiate insurance, or who receive commission or compensation that is dependent on the placement of the insurance product, must obtain a limited line insurance producer license. The individual applicant must: 1) obtain the limited lines insurance producer license by submitting the appropriate application form and paying all applicable fees as set forth in applicable state law; and 2) receive a program of instruction or training subject to review by the insurance department.

~~No prelicensing or testing shall be required for the identified non-core limited lines insurance.~~

Recommended Best Practices for State Insurance Regulators

- No prelicensing or testing shall be required for the identified non-core limited lines insurance.