

Property and Casualty Insurance

Michigan

Effective February 1, 2015

State Law Supplement

Important: Check for Updates

States sometimes revise their exam content outlines unexpectedly or on short notice. To see whether there is an update for this product because of an exam change, go to **www.kaplanfinancial.com** and check the Insurance Licensing Blog. If there is an update, it will be clearly noted in the blog entries for this state.

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MICHIGAN PROPERTY AND CASUALTY INSURANCE LAW
SUPPLEMENT, EFFECTIVE FEBRUARY 1, 2015
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Contents

Introduction v

S E C T I O N 1 Cram Sheets 1

S E C T I O N 2 Class Notes 5

S E C T I O N 3 Detailed Text 31

S E C T I O N 4 Practice Exam 81

Introduction

What is a State Law Supplement?

This book focuses on the state-specific statutes and regulations on the state exam content outline. In order to be fully prepared for the exam, you must understand completely both the national License Exam Manual and this supplement.

How is the supplement organized?

In order to make this book flexible and easy to use, we've divided it into four sections, and are each broken into topic areas as seen below.

Section	Topic Areas
Cram Sheets Cram sheets focus on very specific details for your state. The information is presented in an easy to understand table format primarily highlighting days, dates, and dollars.	■ General Insurance Law ■ Life Insurance Law ■ Health Insurance Law
Class Notes The class notes are meant to be a summary of the key topics in the law supplement, and are available to all students—classroom and self-study.	■ General Insurance Law ■ Life Insurance Law ■ Health Insurance Law
Detailed Text The text section is the most detailed section of the law supplement. All topics in your state's exam content outline law and regulations section are covered.	■ General Insurance Law ■ Life Insurance Law ■ Health Insurance Law
Practice Exams The practice exams test your retention of the law supplement material.	■ General Insurance Law ■ Life Insurance Law ■ Health Insurance Law

Do I have to learn everything in this book?

Not necessarily! The table below shows the sections you should study depending on the exam you are preparing for.

State Exam	Sections to Study
Property and Casualty Insurance	General (All Lines), Property, and Casualty Insurance
Property Insurance Only	General (All Lines), and Property Insurance only
Casualty Insurance Only	General (All Lines), and Casualty Insurance only

How should I study this information?

Below is a best study practice for the law and regulations section of your exam.

1. **Law Supplement Cram Sheet:** Your exam will probably ask about specific fine amounts or days' notice requirements (e.g., changing your address).
2. **Law Supplement Class Notes:** Reading the class notes exposes students to the majority of topics covered in the law supplement.
3. **Law Supplement Detailed Text:** Read this text for more in-depth descriptions of the state's insurance laws and regulations.
4. **Law Supplement Practice Exams:** There are two law supplement practice exams. One is in the back of the law supplement. State specific law questions can also be found in the InsurancePro™ QBank at www.kaplanfinancial.com.
5. In your final preparation for the exam take the time to again review the **cram sheet** and **class notes**. Use them as a last-minute refresher of the most important law and regulation testable topics.



1

Cram Sheets

HOW TO USE: In your final preparations for your insurance exam use this cram sheet to memorize key days, dates, and dollars. A suggested technique is to cover the left hand column; read the right hand column; then uncover the left hand column to reveal the correct answer.

MICHIGAN LAW AND REGULATIONS PERTINENT TO ALL INSURANCE LINES

Producer Appointments

15 days	File a notice of appointment within ___ days
30 days	___ days for Commissioner to approve appointment
30 days	___ days to inform the Commissioner of appointment termination
15 days	___ days for insurer to give notice of appointment termination to producer
30 days	___ days for producer to respond to notification

Licensing

	License Qualifications
Age 18	Applicant's minimum age
12 months	Complete prelicensing education within ___ months of license application
12 months	A lapsed producer license may be reinstated without retaking the licensing examination if reinstated within ___ months
2 years	Counselor must keep a copy of counseling agreement for at least ___ years
180 days	A temporary insurance producer license may be issued for up to ___ days
	Exemption From Prelicensing Requirements
12 months	Persons who have been licensed as an insurance producer within the preceding ___ months
90 days	Nonresident producers who have, within the preceding ___ days, canceled their resident licenses
90 days	Nonresident producers who move to Michigan and apply within ___ days to become resident licensees
30 days	Producer's time to notify the DOI of <i>name or address change</i>
30 days	The producer must notify the Commissioner of any administrative action taken, or criminal prosecution against the producer within ___ days
	Continuing Education (CE)
24 hours	___ hours of CE every two years
3 hours	___ hours of Ethics CE every two years
90 day	___ day grace period to complete CE

Disciplinary Actions

30 days	An individual may contest a cease and desist order by requesting a hearing no later than ___ days after order was delivered
	Penalties
\$500	\$___ civil fine for each violation
\$2500	\$___ for each violation if the person knew the act was prohibited
\$25,000	\$___ total civil fines cannot exceed
	License Revocation
15 days	___ days to appear for a hearing after notified by Commissioner
10 days	___ days before revocation shall take effect
10 days	___ days for Supreme Court to review an order
\$10,000, \$50,000	If a person knowingly violates a cease and desist order, the Commissioner may order a civil fine of up to \$___ for each violation (no more than \$___ for all violations)

Marketing Practices

\$500	Misrepresentation of the identity of the insurer is a misdemeanor with a maximum fine of \$___
	Twisting/Misrepresentation
1 year	___ year license revocation
	Controlled Business
15%, 12 month	Cannot exceed ___% of total premiums in any ___ month period

\$5.00	Rebating \$___ or less of tokens or merchandise to applicants is allowed	
\$100.00		
\$100.00		
12%	The insurer must pay to its insured ___% interest on claims not paid on a timely basis	
30 days	Within ___ days, the insurer shall specify satisfactory proof of loss	
45 days	Health Claims ___ days for health care providers to pay claim	
12%		___% interest if not paid
45 days		___ days for health care provider to correct deficiency
\$1,000 - \$10,000		\$___ - \$___ fine per violation for failure to comply

MICHIGAN LAWS, RULES, AND REGULATIONS PERTINENT TO PROPERTY AND CASUALTY ONLY

Michigan Property and Casualty Guaranty Association

30 days	Claims covered in the event of an insurer's insolvency are claims that existed before, or were incurred within, ___ days of the appointment of the receiver
\$500	No coverage is provided for claims that involve refunds of unearned premium over \$___
\$10	The association will pay all covered claims in excess of \$___

Mandatory Fire Policy Provisions

\$25	Cancelling the Policy The minimum earned premium is the greater of \$___ or a pro rata premium for the l coverage provided
------	--

Essential Insurance Act

30 days	Termination of Insurance <ul style="list-style-type: none"> ■ ___ days' written notice must be sent to the insured prior to cancellation ■ A notice of termination sent within the first 55 days of policy issuance may take effect no less than ___ days from the date of mailing ■ Casualty insurance notice of termination must be mailed at least ___ days prior to cancellation
20 days	
10 days	

MICHIGAN LAWS, RULES, AND REGULATIONS PERTINENT TO PROPERTY INSURANCE ONLY

Special Provisions Endorsements: DP 01 21 and HO 01 21

2 years	Dwelling Policy and Homeowners Policy Allows action brought within ___ years after date of loss. Insurer must make payment within ___ days of proof of loss.
30 days	

MICHIGAN LAWS, RULES, AND REGULATIONS PERTINENT TO CASUALTY INSURANCE ONLY

Automobile Insurance

\$5,000	Personal Injury Protection (PIP) Benefits \$___ maximum death benefit ___% of income lost for up to three years Up to \$___ per day for three years for loss of essential services Maximum PIP deductible per accident
85%	
\$20	
\$300	
\$1 million	Property Protection Insurance (PPI) Pays up to \$___ per accident for damage to property of another person

\$20,000 \$40,000 \$10,000	Residual Liability Minimum Limits \$_____ for bodily injury or death of one person, for any one accident; \$_____ for bodily injury or death of more than one person, for any one accident; \$_____ for damage to property of others, for any one accident.
\$1,000 50%	Tort Liability An insured may be liable for property damage to a motor vehicle up to \$____, to the extent that damages are not covered by insurance A person that is more than ___% at fault for the accident will not be awarded damages
\$20,000 \$40,000	Uninsured Motorist (UM) and Underinsured Motorist (UIM) Minimum Limits \$__ bodily injury per person \$__ bodily injury per accident
55 days 20 days 7 days	Cancellation and Nonrenewal Policy may be cancelled during the ___ days following date of policy issue Cancellation notice must be mailed at least ___ days prior to termination of policy The insured has ___ days to appeal cancellation to the Commissioner

Worker's Compensation

3 employees 3 employees 35 hours 3 employees 35 hours 1 employee 35 hours	Employers Mandated to Furnish Coverage <ul style="list-style-type: none"> ■ Nonagricultural employers who employ ___ or more employees at one time ■ Nonagricultural employers who employ less than ___ employees, if one of the employees has been regularly employed for at least ___ hours per week for at least 13 of the preceding 52 weeks ■ Agricultural employers who employed _____ or more employees for at least ___ hours per week for at least 13 of the preceding 52 weeks ■ Agricultural employers who employ ___ or more employees for at least ___ hours per week for five or more consecutive weeks
35 hours	<i>Eligible employee</i> includes household domestic servants who worked ___ hours or more per week for at least 13 of the preceding 52 weeks.
28 days 7 days 8th day 14 days 80% 90% 800 weeks \$6,000 80% 500 52 weeks	Benefits Provided <ul style="list-style-type: none"> ■ For medical benefits, the employee may choose his own physician after ___ days ■ Disability compensation <i>waiting period</i> is ___ days. Disability compensation benefits begin on the ___ day after the injury. ■ If the disability lasts ___ days or longer, then disability compensation benefits are calculated retroactive back to the date of injury ■ Weekly total disability benefits are ___% of the employee's after tax wage ■ The maximum weekly total disability benefit is ___% of the state average weekly wage ■ Disability compensation benefits may be paid for up to ___ weeks ■ Maximum funeral/burial benefit ■ Survivor income benefits are ___% of employee's after-tax weekly wage for ____ weeks from date of death ■ Vocational rehabilitation cannot exceed ___ weeks
2 years	A claim must be reported within ___ year(s) after the date the employee knew of injury
120 days	The audit of payroll expenditures shall be completed within ___ days of the request
25% \$2,500 30 days	Workers Compensation Unfair Practice Requiring a premium deposit greater than ___% of the total projected annual premium or \$____ Requiring the payment of an increased premium increment within ___ days of written notification



2

Class Notes

HOW TO USE: The class notes are an excellent place to start when studying the state specific laws and regulations. The class notes are a summary of the key law supplement topics. For some students the class notes may be their primary section to study the law and regulation exam material.

Michigan Laws and Regulations

All Insurance Lines

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Producer Appointment

- **Producer appointment**
 - Insurer must file within 15 days from date of agency contract
 - By law, insurance companies are responsible to consumers for the acts of their appointed producers. When a producer or other licensee mishandles a transaction, the insurer may be held liable to the consumer.
- **Appointment cancellation**
 - Insurer must notify Commissioner within 30 days of termination
 - Does not cancel producer's license within state

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Types of Licenses

- **Resident producer must:**
 - be at least 18 years of age;
 - not have committed any act that is grounds for license denial;
 - complete the necessary prelicensing education within 12 months of applying for license;
 - pay the applicable fees; and
 - successfully pass the examination.

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Types of Licenses

- Counselor
 - Anyone who provides advice regarding insurance policies must be licensed as a counselor.
 - Does not apply to agents providing customary advice to a client or to lawyers, provided that they do not represent themselves to be licensed insurance counselors or consultants
 - Signed written agreement must state work to be performed and fee prior to performing services

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Types of Licenses

- A **business entity** is a corporation, association, partnership, limited liability company, limited liability partnership, or other legal entity.
 - Must be a licensed producer
 - Complete uniform business entity application
 - Designate an individual who is licensed producer to be responsible for compliance with insurance laws and regulations

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Licensing

- Change of address
 - Must notify Commissioner in writing within 30 days
- Change of name
 - Must notify Commissioner in writing within 30 days
- Assumed name
 - An insurance producer doing business under any name other than the producer's legal name must notify the Commissioner before using the assumed name.

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Continuing Education

- Must complete 24 hours of approved education every two years
- At least 3 of the 24 hours must be ethics in insurance
- 90-day grace period after expiration of license to complete continuing education
- **Long term care (LTC) education requirement** must be met prior to selling LTC insurance
 - Courses cannot include content on how to sell or market a specific long term care product.

Disciplinary Actions

- Penalties
 - Payment of a civil fine of up to \$500 for each violation
 - \$2,500 for each violation if the person knew, or should have known, that the act was prohibited
 - Total of civil fines cannot exceed \$25,000
 - The suspension or revocation of the person's license
 - Commissioner notifies person of hearing
 - Hearing is 15 days after receipt of notice
 - Revocation is 10 days after order has been made

Disciplinary Actions

- Penalties (cont.)
 - Violation of cease and desist order
 - Fine of up to \$10,000 for each violation
 - Not to exceed \$50,000 for all violations
 - Suspension and/or revocation of license

Marketing Practices

- False advertising
 - Any advertisement, announcement, or statement containing misleading, unfair, or deceptive information
- Twisting
 - The act of inducing a person to drop existing insurance coverage and purchase new insurance with a new producer or company
- Misrepresentation
 - Leading someone to believe that certain benefits, conditions, or advantages exist in a policy when they do not
 - A misrepresentation is a lie.

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Marketing Practices

- Defamation
 - Making an oral or written statement that is false, malicious, or derogatory regarding the financial or personal condition of a person engaged in the business of insurance
- Boycott, coercion, and intimidation
 - Methods of unfair competing which result in an unreasonable restraint of business

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Marketing Practices

- Disparaging comparisons and statements
 - Advertisements cannot directly or indirectly make unfair or incomplete comparison to the policies of other insurers.
- False or malicious statements
 - False or malicious statements are considered a misdemeanor with a fine of up to \$1,000 and up to one year of imprisonment.
- Fraudulent statements
 - Statements made to fraudulently conceal facts are considered a misdemeanor and subject to fine up to \$1,000 and up to six months of imprisonment.

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Marketing Practices

- Rebating
 - An inducement to buy insurance, if not mentioned in contract, is illegal (like giving someone money or a flat-screen TV if they will buy a policy from you).
- Discrimination
 - Cannot exist between similar risks or individuals regarding life or health insurance
 - Violators are subject to a \$500 fine. Company officers penalties include a fine up to \$500 or one year imprisonment.

Marketing Practices

- Claims methods and practices
 - Insurer must pay benefits on a timely basis
 - Benefits paid shall bear 12% simple interest from a date 60 days after satisfactory proof of loss was received by the insurer
 - Failure to pay claims on a timely basis is an unfair trade practice unless claim is reasonably in dispute

Marketing Practices

- Insurance fraud
 - Fraudulent insurance acts are characterized by acts or omissions that a person does knowingly and with the intent to injure, defraud, or deceive.
- False claims
 - Filing a fraudulent claim for death, sickness, or disability with an insurer is a misdemeanor.
 - Conviction can result in a \$1,000 fine or up to three months in prison.

Marketing Practices

- Release of information
 - Upon written request, an insurer or agent must turn over all documents that relate to suspected fraud.
- Immunity from liability
 - A person who turns over information to a governmental body is held harmless as long as they are acting in good faith.

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Marketing Practices

- Penalties
 - Anyone who commits a fraudulent insurance act is guilty of a felony and subject to imprisonment for up to four years or a fine of up to \$50,000, or both, and must also pay restitution.
 - A person who conspires to commit insurance fraud is subject to imprisonment for up to 10 years or a fine of up to \$50,000, or both, and must also pay restitution.

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Marketing Practices

- The purpose of the **consumer privacy** regulations is to protect personal nonpublic financial information.
- The producer must provide a **privacy notice** to customers at the time they establish a customer relationship.

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Marketing Practices

- Fiduciary responsibilities
 - Producer is in a position of financial trust to the insurance buyer and the insurer.
 - Premiums must be remitted promptly.
 - Premium accounts must be maintained in a separate account from producer's person accounts.
- Commission sharing
 - Producers may share commissions with other licensed resident or nonresident producers.
 - It is a violation to share commissions with an unlicensed person.

Michigan Laws, Rules, and Regulations

Property and Casualty Only

Guaranty Association

- Michigan Property and Casualty Insurance Guaranty Association
 - Protects insureds against insurer insolvencies
 - Association is made up of all insurers authorized to sell insurance in Michigan, other than life or health insurance

Guaranty Association

- Policies covered
 - Auto, homeowners, fire, commercial property, workers' compensation, and general liability
- The Association's liability is:
 - the lesser of the policy limits, or \$5,000,000 (indexed to CPI); and
 - up to \$500 of unearned premium.
- Personal protection insurance and workers' compensation claims are paid in full—no limit.

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Guaranty Association

- Board of Governors
 - Two from the general public
 - Five from the member insurers
 - All are appointed by the Commissioner

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Mandatory Fire Policy Provisions

- Cancellation Request by the Insured
 - The insured may cancel the policy at any time.
 - The minimum earned premium is the greater of \$25 or the pro rata premium for the coverage provided.

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Mandatory Fire Policy Provision

- Appraisal clause
 - If the insured and insurer don't agree on the amount of a loss, either party may, with a 20-day written notice, request an independent appraiser.
 - Appraisers must select an umpire (third appraiser)
 - Agreement by any two appraisers will set the amount of the loss

Essential Insurance Act

Under Michigan Essential Insurance Act, an insurer cannot limit coverage or refuse to insure or renew coverage unless the insurer has specific written underwriting rules that would allow that insurer to reject and eligible applicant.

Essential Insurance Act

- Rates must not be excessive, inadequate, or unfairly discriminatory.
- Rates must be filed with the Commissioner.
 - A filing not disapproved within 60 days after its submission is considered approved.

Essential Insurance Act

- Notice of rating system
 - Insurer will send notice at least annually describing rating classification for premiums on policy and how policyholder can appeal current rates affecting policy in question

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Essential Insurance Act

- Disputes between insured and insured
 - If a person has been denied auto or homeowners coverage, he can demand conference with insurer
 - Insurer must comply within 30 days or matter may be determined by Commissioner
- Grievance procedure
 - A person or organization that doesn't agree with a filing may make a written appeal to Commissioner for hearing

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Essential Insurance

- Termination of insurance
 - 30 days termination notice is required, except for nonpayment of premium.
 - The notice must specify cancellation date and reason.
 - 20 days termination notice is required for cancellations sent within the first 55 days of policy issuance.
 - 10 days termination notice is required for casualty insurance.
 - Casualty insurance may be canceled at any time by the insured and the premium will be refunded on a pro rata basis.

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Essential Insurance

- Producer duties
 - Provide a quote for the type of coverage requested by a qualified applicant
 - Tell a qualified applicant the number of insurers the producer represents and provide additional quotes upon request
 - Supply a statement at auto renewal which explains insurance point system
- Insurance declined
 - Producer and company are responsible for telling exact reason for declination

Essential Insurance Act – Homeowners Insurance

- Eligible person
 - Person who lives in, rents or owns a house, condo, cooperative unit, room or apartment in Michigan

Essential Insurance Act – Homeowners Insurance

- Who is ineligible?
 - Persons who in the last five years have been convicted of:
 - arson or conspiracy to commit arson;
 - malicious destruction of property;
 - violations regarding the use of explosives; or
 - misrepresentation or fraud
 - Property that is used for illegal or particularly hazardous purposes

Essential Insurance Act – Homeowners Insurance

- Who is ineligible (continued)?
 - Persons who:
 - refuse to purchase insurance for the appropriate minimum amounts;
 - have been canceled for nonpayment in the last two years;
 - have not paid real property taxes due on the property in past two years; and
 - do not meet the Commissioner’s minimum standards of insurability

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Essential Insurance Act – Homeowners Insurance

- Underwriting rules must be based on the following:
 - Physical condition
 - For the renewal of a policy, the liability claim history for the last three years resulting from insured negligence
 - Physical condition that could lead to liability loss
 - Relationship between replacement cost and market value

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Essential Insurance Act – Homeowners Insurance

- Underwriting rules must be based on the following (continued):
 - Three or more property claims in three years over \$3,000 (excluding weather-related claims)
 - Three or more property claims in three years over \$4,000 (including weather-related claims)
 - Excessive number of residential units
 - Unoccupancy for more than 60 days
 - Existence of significant adjacent physical hazard

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**Essential Insurance Act –
Homeowners Insurance**

- Risk classifications
 - Home insurance risks must be grouped by territory and have a territorial base rate.
 - Rates must not be excessive, inadequate, or unfairly discriminatory.
 - Rate classifications must be based on the following:
 - Amount of insurance and type of coverage
 - Security and safety devices (smoke detectors, locks, etc.)
 - Repairable structural defects related to the risk

**Essential Insurance Act –
Homeowners Insurance**

- Rate classifications must be based on the following (cont.):
 - Fire protection class
 - Construction of dwelling
 - Based on size, building materials, and the number of units
 - Loss experience of the insured
 - Use of smoking materials inside dwelling
 - Distance from fire hydrant
 - Availability of law enforcement or crime prevention services

**Essential Insurance Act –
Homeowners Insurance**

- Inspection of dwellings
 - To determine homeowners' eligibility by using an inspection, an insurer may not use the following criteria:
 - Location of dwelling
 - Age of dwelling or its heating, electrical, or structural components
 - Market value of dwelling
 - Amount of insurance
 - Race, occupation, color, creed, marital status, sex, national origin, residence, age, or handicap of the applicant

**Essential Insurance Act –
Automobile Insurance**

- Eligible person
 - A person who is an owner or has an automobile registered in the state of Michigan, or who holds a valid Michigan drivers license
- Ineligible person
 - License is suspended or revoked
 - Convicted of insurance fraud within the last 5 years
 - Convicted of DUI or other motor vehicle felony within the last 3 years
 - Policy canceled for non-payment in past 2 years

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**Essential Insurance Act –
Automobile Insurance**

- Automobile Repair Rights
 - Insurance company cannot force an insured to use a particular auto shop when repairing or servicing auto
- Risk Classification—Based on the following:
 - Age of driver, driving experience, and number of years licensed
 - Average miles driven
 - Type of use
 - Vehicle characteristics
 - Commuting miles
 - Number of cars insured and number of licensed operators in household
 - Amount of insurance

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**Essential Insurance Act –
Automobile Insurance**

- Rating factors for Personal Protection Insurance
 - Earned income
 - Number of dependents under policy
 - Coordination of benefits
 - Use of safety belt
- Rating factors for comprehensive and collision coverage
 - Make and model of vehicle
 - Design characteristics
 - Anti-theft devices

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**Essential Insurance Act –
Automobile Insurance**

- Premium surcharges
 - Substantially at-fault accidents
 - Conviction for violating motor vehicle laws
- Risks may be grouped by territory.
- Rating classification cannot be based on sex or marital status.
- Discounts are available to people over the age of 50 who successfully complete a traffic accident prevention course.

**Essential Insurance Act –
Automobile Insurance**

- **Underwriting rules**—Insurers may decline or nonrenew for the following reasons:
 - Ineligible person
 - Person who cannot provide proof of insurance
 - Excessive points accumulation
 - Vehicles which have been modified to increase their speed
 - Vehicles used for livery or commercial purposes
 - Refusal to accept a required deductible

**Essential Insurance Act –
Automobile Insurance**

- **Underwriting rules**—Insurers may decline or nonrenew for the following reasons (cont.):
 - Type of vehicle (based on one of the following)
 - Vehicle is of limited production
 - Insurer does not maintain a rate for that type of vehicle
 - Repair cost or replacement cost is to high

Michigan Laws, Rules, and Regulations

Property Insurance Only

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Special Provisions

- Dwelling Policy (DP 01 21) or Homeowners Policy (HO 01 21)
 - These endorsements must be attached to the dwelling or homeowners policy.
 - The “suit against us” condition allows legal action against the insurer to be brought within two years after date of loss.
 - Insurer must make payment within 30 days of proof of loss.

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Michigan Laws, Rules, and Regulations

Casualty Insurance Only

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Financial Responsibility

- Minimum automobile liability limits required in Michigan are “20/40/10”:
 - \$20,000 per person for bodily injury (BI) or death
 - \$40,000 per accident for bodily injury or death
 - \$10,000 for property damage (PD)

Michigan Automobile Placement Facility (MAIPF)

- Purpose
 - Provides insurance for applicants who cannot obtain insurance through ordinary methods
 - Facility is made up of all insurers authorized to write auto insurance in Michigan

No-Fault Automobile Coverage

- Certificate of insurance
 - The owner of a motor vehicle registered in Michigan must maintain security for payment of benefits under all of the following:
 - Personal Protection Insurance
 - Also known as Personal Injury Protection (PIP);
 - Property Protection Insurance (PPI); and
 - Residual Liability Insurance.

No-Fault Automobile Coverage

- Penalty
 - Owners who do not carry required automobile insurance for their vehicles are guilty of a misdemeanor. Conviction may result in the following:
 - Revocation of license or registration
 - Fines between \$200 to \$500
 - Imprisonment for up to one year

Personal Injury Protection (PIP)

- PIP benefits are paid, without regards to negligence, to insureds who sustain accidental bodily injury as result of an automobile accident.
- Benefits provided
 - Medical services for care, recovery and rehabilitation
 - Death benefits
 - Wage losses up to 85% of gross income for up to three years
 - Subject to a Monthly statutory maximum
 - Loss of essential services—maximum of \$20 per day

Personal Injury Protection (PIP)

- Personal injury protection benefits are unlimited.
 - Benefits will be paid for as long as the conditions exist.
- Maximum deductible: \$300 per accident

Catastrophic Claims Association

- The association was created to reimburse and reinsure insurers for large auto-related medical claims.
 - Michigan Catastrophic Claims Association (MCCA)
 - Insurers pay up to the first \$500,000, then any amounts over are reimbursed from the MCCA

Collision Coverage

- Collision coverage offered
 - Limited collision coverage
 - Pays for damage to insured vehicle without deductible when operator of vehicle is not substantially at fault in accident
 - Broad form collision coverage
 - Pays for collision damage to insured vehicle regardless of fault
 - Deductibles are waived if operator of vehicle is not substantially involved in accident
 - Standard collision
 - Has a deductible for at-fault and not-at-fault accidents

Property Protection Insurance (PPI)

- Pays up to \$1 million per accident for damage done to property not owned by the insured
 - The accident must happen in Michigan.
 - Benefits are paid without regard to fault for damage to such property as trees, bridges, signs, and legally parked autos.

Residual Liability Insurance

- Provides liability protection against lawsuits due to:
 - death, permanent disfigurement, and serious impairment of bodily function; or
 - property damage coverage up to \$1,000 when insured is less than 50% at fault (mini-tort)

Uninsured Motorist (UM) and Underinsured Motorist (UIM)

- **UM** covers the insureds' bodily injury when the other driver does not have auto insurance.
- **UIM** pays the difference between the insured's actual damages for bodily injury and the amount of liability insurance carried by the driver who was at fault.
- UM/UIM rejection form
 - Insured must sign when coverage is reduced below bodily injury liability limits or if coverage is completely rejected

Cancellation and Nonrenewal

- An automobile policy may be canceled within the first 55 days following the issue date for underwriting reasons.
 - Written notice must be mailed to the insured at least 20 days prior to the effective date of cancellation.
- 10 days advance notice of cancellation due to nonpayment of premium
- 30 days advance notice of cancellation for any other reason, or nonrenewal

Aftermarket Crash Parts

- If an insurer requests the use of non-OEM aftermarket crash parts in repairing an insured's vehicle, a repair facility or installer may use them.
- The repair facility must notify the insured in writing that the repair estimate is based on parts other than those from the auto manufacturer.

Workers' Compensation

- Definitions
 - Workers' compensation reimburses employees injured in the course of and arising from their employment.
 - Reimbursement includes the following:
 - Loss of wages
 - Hospital and medical expenses
 - Payments for permanent and partial disability
 - Payments to dependents
 - Last sickness and burial expenses

Workers' Compensation

- Workers' compensation may be provided in the following two ways in Michigan
 - Employer purchases a workers' compensation insurance policy
 - Self-funded plan
 - Employer must show proof of solvency to the Bureau of Workers' Disability Compensation.

Mandated Employers

- Private, nonagricultural employers who employ three or more employees at one time
- Private, nonagricultural employers who employ less than three employees if one of the employees has been regularly employed for at least 35 hours per week for 13 weeks during the preceding 52 weeks

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Mandated Employers

- Agricultural (farm) employers who employ three or more salaried or hourly employees for a minimum of 35 hours per week for 13 consecutive weeks
- Agricultural employers who employ one or more employees for at least 35 hours per week for five or more consecutive weeks (migrant workers)
- All public employers including the state, each county, city, township, incorporated village, and school district

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Eligible Employees

- In addition to other eligible employees, Michigan statutes include the following:
 - Minor children working legally under age 18
 - Double compensation awarded if employed illegally for a position they are not old enough for by law
 - Household domestic servants if the person worked 35 hours per week for a minimum of 13 weeks in the past 52 weeks

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Medical Benefits

- Pays cost of medical services required because of an employment-related injury
- Any type of related medical expense is covered
- No upper dollar limit of benefits
- No time limit for which expenses will be paid
- Benefits payable immediately
- After **28** days, employee may choose own physician

Disability Benefits

- Waiting period
 - Seven days, no benefits
 - Benefits begin on the eighth day
- **Retroactive period**—If the disability lasts 14 days or longer, then disability benefits are calculated retroactive back to the date of injury.
- Initial benefit period is up to 800 weeks
 - Pays up to 80% of pre-disability wage subject to state maximum

Survivor Benefits

- Weekly indemnity payments to the surviving dependent spouse and children
 - 80% of deceased's after-tax average weekly wage
 - Payable for 500 weeks or until child turns age 21
 - Funeral and burial expenses: \$6,000

Workers' Compensation

- Disability
 - The limitation of an employee's ability to earn wages in work suitable to his qualifications and training as a result of a personal injury or work-related disease
- Personal injury
 - Disease or disability due to causes and conditions unique to employer's business
- Time limitation on claims
 - Claim of disease or death begins when employee knew disease or death was work related, and must be reported within two years of said knowledge.

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Workers' Compensation

- Second Injury
 - If employee has a permanent disability (loss of hand, arm, foot, leg, or eye) and then has another injury which results in another permanent disability, after payments have been made for the second injury, he will be presumed to be totally and permanently disabled.
 - Compensation will be paid for total and permanent disability minus number of weeks compensation was received for both losses.
 - Compensation will be made by the *second injury fund* and will begin at the end of payments for the second permanent disability.

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Workers' Compensation

- Bureau of Workers' Disability Compensation must be notified 20 days in advance of the date of cancellation or termination of any workers' compensation policy

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Marketing Practices

- Workers' compensation practices
 - Audit of payroll expenditures
 - At request of insured, insurer must audit payroll expenditures to determine proper workers' compensation premiums
 - Must be completed within 120 days of request
 - Must be conducted annually



3

Detailed Text

HOW TO USE: All state specific topics in your state's exam content outline law and regulation section are covered in this detailed text. Students are encouraged to read the text for in-depth descriptions of the state's insurance laws and regulations. In addition, some topics are not covered in the Cram Sheets and Class Notes, and are only covered in the Detailed Text.

I. MICHIGAN LAW AND REGULATIONS PERTINENT TO ALL INSURANCE LINES

A. COMPANY REGULATION

1. Producer appointment [500.1208a, .1208b, .1209, .1411]

In general, an insurer may not appoint, employ, or receive business by a person acting as a producer unless the person legally is licensed as an insurance producer under Michigan law and the person is employed by, or authorized in writing to act by the insurer. To appoint a producer as its agent, the appointing insurer must:

- file a notice of appointment on an approved form within 15 days from the date the agency contract is signed or the first insurance application is submitted; and
- pay the required fee.

a. The Commissioner will, within 30 days, approve the producer's appointment. If the Commissioner finds that the producer is ineligible, he must notify the insurer within five days of the decision.

b. By law, insurance companies are responsible to consumers for the acts of their appointed producers. When a producer or other licensee mishandles a transaction, the insurer may be held liable to the consumer.

2. Termination of appointment [500.1208b, .1209] An insurer who terminates a producer's appointment must inform the Commissioner within 30 days of the date of termination. If the cancellation of the appointment results from the producer's violation of insurance laws, the insurer must provide evidence of the violation.

a. This action merely cancels the producer's appointment with the insurer. It does not cancel the producer's license with the state.

b. Within 15 days of notifying the Commissioner, the insurer must give written notice to the producer.

c. The producer has 30 days to respond to the notification and send a copy of his response to the insurer. In the absence of malice, none of the parties involved in the termination are subject to civil liability, nor can they be sued as a result of providing any required statement or information.

d. Generally, when an appointment is cancelled, the producer still may receive renewal commissions on the existing policies and may continue to serve the policyholders of the insurer. However, the producer may not take any new applications for insurance for that insurer.

- 3. Termination of authority to represent insurer [500.1209]** If an insurance producer's authority to represent an insurer is terminated, the responsibility of an insurance producer having property rights in the renewal will continue until the existing policies of insurance are canceled, replaced, or have expired.
- a.** The insurance producer's authority during the period following notice of termination will be governed by the written agreement between the insurance producer and the insurer.
 - b.** An insurer may not cancel or refuse to renew the policy of an insured because of the termination of an insurance producer's contract. If the written agreement does not cover the insurance producer's authority during this period, the insurance producer may continue to represent the insurer in servicing existing policies but may not bind a new risk, renew a policy, or increase the obligation of the insurer under the policy without the approval of the insurer.

B. PRODUCER REGULATION

1. Types of licenses

- a. Resident producer [500.240, 500.1201, .1201(a), .1205, .1206, .1206(b), 500.1240]** An **insurance producer** is a person who is required to be licensed in order to sell, solicit, or negotiate insurance. An insurance producer may be a life and health insurance agent, or a property and casualty insurance agent. An **agent** is an insurance producer. An agent represents the insurer in any insurance transaction. A **business entity** is a corporation, association, partnership, limited liability company, limited liability partnership, or other legal entity.
- 1.)** A person shall not sell, solicit, or negotiate insurance in Michigan for any line of insurance unless the person is licensed for that qualification. The Commissioner must make a decision on a license application within 60 days after receiving the completed application. The Commissioner will investigate the applicant's background to determine his qualifications to function as a producer. If an applicant is denied a license, he may submit a written request within 30 days of the denial for a hearing on the decision. To qualify for a license, the applicant must:
 - be at least 18 years of age;
 - not have cvxamination; and
 - the applicant need not be a US citizen.
 - 2.)** Unless denied a license, applicants who have met the requirements will be issued an insurance producer license for one or more of the following lines of insurance:
 - life;
 - accident, and health or sickness;
 - property;
 - casualty;

- variable life and variable annuity products;
- personal lines;
- credit; or
- any other line of insurance permitted under the law.

b. Nonresident producer [500.1204e, .1206(a), .1206b]

- 1.) A nonresident insurance producer also may be licensed in this state if he:
 - is a resident in good standing in his home state;
 - submits a request for a license and pays the required fee;
 - submits to the Commissioner a copy of the license application he completed and filed in the home state, or completes a uniform application form and submits it to the Commissioner; and
 - is a resident of a state that awards nonresident producer's licensing status to residents of Michigan on the same basis.
- 2.) A nonresident insurance producer who moves from one state to another or a resident producer who moves from Michigan to another state must file a change of address and provide certification from the new resident state within 30 days of the change of legal residence. No fee or license application is required.
- 3.) A person licensed in another state who is applying for a resident license in Michigan is not required to complete preclicensing education or take the licensing examination if:
 - the resident state certifies that the applicant is in good standing; and
 - the application for a license in Michigan is received within 90 days of the cancellation of the applicant's previous license.

c. Counselor [500.1232, .1234, .1236] Anyone who provides advice or counsel regarding insurance policies, values, terms, or provisions, and who purports to be an insurance counselor, must be licensed as a counselor. A person may not use such terms as *counselor* or *consultant* unless he is licensed as a counselor. This provision does not apply to agents who provide customary advice to a client or to lawyers, provided that they do not represent themselves to be licensed insurance counselors or consultants.

- 1.) To be licensed as an insurance counselor, a person must submit an application to the Commissioner and pass a written exam. The Commissioner may investigate the applicant's qualifications to the extent that the Commissioner considers necessary.
- 2.) Within 60 days of application, the Commissioner must make a decision on the application. The Commissioner may issue a license if he finds that the applicant:
 - has a reasonable understanding of the insurance on which he plans to counsel and of the Michigan insurance laws;

- intends in good faith to act as an insurance counselor; and
 - has a good business reputation and good moral character to act as an insurance counselor.
- 3.)** Before providing any counseling services, a counselor must prepare a written agreement which must be signed by both the counselor and client.
- a.)** The agreement must outline the nature of the work to be performed and state the fee.
 - b.)** It also must state clearly that the fee may not be waived under any circumstances and that the counselor will receive a commission from the insurer on any insurance placed by the counselor when acting as an insurance agent.
 - c.)** The counselor must keep a copy of this agreement for at least two years after providing the services.
- d. Business entity [500.1201, .1205(2)]** A business entity acting as an insurance producer must be licensed as an insurance producer. A business entity applying for an insurance producer license must:
- complete and submit the uniform business entity application with the Commissioner;
 - pay the required fee;
 - designate an individual who is a licensed producer to be responsible for the business entity's compliance with the state insurance laws and regulations;
 - attest that it has not committed any act that is grounds for denial, suspension, or revocation of the license; and
 - produce documents the Commissioner may require to verify information in the application.
- e. Temporary license [500.1211(b)]** The Commissioner may issue a temporary license (without an examination) for up to 180 days. The Commissioner may limit the authority of any temporary licensee if he considers it necessary to protect the insureds or the public. The Commissioner may require the temporary licensee to have a suitable sponsor who is a licensed producer or insurer to accept responsibility for the acts of the temporary licensee. In addition, the Commissioner may revoke the temporary license if he suspects that the licensee is endangering the public. A temporary license becomes invalid when the producer disposes of the business. A temporary license may be issued to the following persons:
- 1.)** The surviving spouse or court-appointed representative of a licensed insurance producer who dies or becomes mentally or physically disabled to allow time for the sale of the business or provide for the training and licensing of new personnel to operate the business;

- 2.) A member or employee of a business entity licensed as an insurance producer, upon the death or disability of the designated individual;
- 3.) The designee of a licensed producer entering active service in the armed forces; or
- 4.) Anyone the Commissioner considers will serve the public interest by having a temporary license.

f. Commissions [500.1240, .2011]

- 1.) An insurer or producer shall not pay a commission, fee, or other consideration to a person for transacting insurance if that person is not properly licensed to do so. This does not restrict the payment of renewals or other deferred compensation to a person who is no longer licensed, but was at the time of the sale. Nor are producers restricted from paying or assigning commissions to agencies or unlicensed persons unless it would violate section 2014 of the code.
- 2.) Insurers are restricted from paying a commission on a disability income policy or rider issued to an individual eligible for Medicare which exceeds the renewals to be paid in each of the next two years.

2. Exemptions [500.1203, .1204]

a. Exemptions from preclicensing requirements

- 1.) Applicants for a limited lines license;
- 2.) Persons who have been licensed as an insurance producer within the preceding 12 months, including those whose licenses have lapsed within the last 12 months;
- 3.) Applicants who have an associate's, bachelor's, or master's degree with a concentration in insurance from an institution approved by the Commissioner;
- 4.) Those applying for a life-only license who hold a Certified Life Underwriter (CLU®) or Chartered Financial Consultant (ChFC®);
- 5.) Those applying for a property and casualty license who hold a Certified Insurance Counselor (CIC) or Chartered Property and Casualty Underwriter (CPCU®) designation;
- 6.) Those applying who hold an Accredited Advisor in Insurance (AAI®) designation; Certified Employee Benefits Specialist (CEBS) designation; Certified Financial Planner (CFP®) designation; Fellow, Life Management Institute (FLMI) designation; Life Underwriting Training Council

(LUTC) fellow designation; Registered Health Underwriter (RHU®) designation; Registered Employee Benefits Consultant (REBC®) designation; Health Insurance Associate (HIA) designation; or the Associate in Risk Management (ARM) designation;

- 7.) Nonresident producers whose current resident licenses are valid or who have within the preceding 90 days cancelled their resident licenses; and
- 8.) Nonresident producers who move to Michigan from other states and apply within 90 days to become resident licensees.

b. Exemptions from licensure [500.1202] The following individuals are not required to be licensed as insurance producers:

- 1.) An officer, director, or employee of an insurer or of an insurance producer who does not receive any commissions on policies written in Michigan and who performs only administrative functions;
- 2.) A person who takes enrollments for group insurance, issues certificates under group plans, or performs administrative duties related to mass marketed property and casualty insurance;
- 3.) An employer or association engaged in the administration or operation of a program of employee benefits;
- 4.) Employees of insurers who are engaged in the inspection, rating, or classification of risks, or in the supervision of the training of insurance producers and not involved in the sale of insurance;
- 5.) Advertisers who create advertisements for insurers;
- 6.) A nonresident who sells commercial property and casualty insurance to an insured with risks located in more than one state and whose home office is not in Michigan;
- 7.) A salaried full-time employee who counsels or advises his employer about the insurance interests of the employer or its subsidiaries;
- 8.) A licensed solicitor who has a written contract with a producer to solicit insurance applications and collect premiums on behalf of the producer (as a solicitor represents a licensed producer and may solicit applications for insurance and collect premiums but may not bind coverage); and
- 9.) An attorney-in-fact of a reciprocal or an inter-insurance exchange may act as an insurance producer for the reciprocal or exchange.

- 3. Maintenance and duration [500.1206(2),(3)]** An insurance producer license will remain in effect unless revoked or suspended as long as the continuing education requirements are met by the due date. A producer who allows his license to lapse for a reason other than completing continuing education hours may reinstate the license without retaking the examination if he does so within 12 months of the date of the lapse.
- a. Assumed names [500.1211a]** An insurance producer doing business under any name other than the producer's legal name must notify the Commissioner before using the assumed name.
 - b. Change of name [1206]** An insurance producer must notify the Commissioner of any name change within 30 days.
 - c. Change of address [1206(5)]** An insurance producer must notify the Commissioner of any change in his mailing address within 30 days of such change. The producer must pay a \$3.00 fee with each change of address.
 - d. Reporting actions [500.1208b, .1239, .1244, .1246, .1247]** An insurance producer must report to the Commissioner any administrative action taken against the insurance producer in another jurisdiction or by another governmental agency in Michigan within 30 days after the final disposition of the matter. This report shall include a copy of the order, consent to order, or other relevant legal documents. Within 30 days after the initial pretrial hearing date, an insurance producer must report to the Commissioner any criminal prosecution of the insurance producer taken in any jurisdiction. The report must include a copy of the initial complaint filed, the order resulting from the hearing, and any other relevant legal documents.
- 4. Continuing education requirements [500.1204, .1204c-f, .1206]** To keep their licenses in effect, producers must complete 24 hours of approved continuing education every two years. At least three of these 24 hours must be devoted to the study of ethics in insurance. A certificate of attendance or completion must be filed with the Commissioner by the education provider with a \$1 fee per credit hour. The filing must be submitted within 30 days after the producer completes the program. The provider must also mail a copy of the form to the producer. The Commissioner will approve a program of study.
- a. Requirements for selling long-term care insurance [500.1204f]** Every insurer whose producers transact long-term care insurance in Michigan must have these producers complete continuing education courses related to long-term care insurance and services. These courses are to cover the following topics:
 - State laws and regulations, including laws concerning the financial exploitation of adults
 - Available long-term care services and providers
 - Changes and improvements in long-term care services and providers
 - Alternatives to private long-term care insurance

- Differences in eligibility for benefits and the tax treatment of federally tax-qualified and non-tax-qualified policies
- The effects of inflation on policy benefits and the importance of inflation protection
- Consumer suitability standards and guidelines

Courses cannot include any content that trains a producer to sell or market the long-term care products of a particular insurer.

- b. Exemptions to requirements** The Commissioner may waive the continuing education requirements for an:
- insurance producer who cannot complete the course work because of a severe hardship;
 - insurance producer who cannot complete the course work due to military service;
 - insurance producer licensed to write only limited line credit insurance; and
 - insurance producer licensed to sell only travel or baggage insurance policies and employed for reasons other than selling such policies.
- c. Reciprocal agreements [500.1204c(11), 500.1204e]** The Commissioner may enter into reciprocal continuing education agreements with Insurance Commissioners from other states.
- d. Penalty for failing to comply** If an insurance producer fails to complete the continuing education requirement by the expiration date of his license, the producer will be given a 90-day grace period.
- 1.) During this period, the producer may not sell new policies or act as an insurance producer except to service existing contracts. If, after the end of the grace period, the producer has still not met the requirement, his license will be cancelled.
 - 2.) The producer must reapply for licensure but will not have to take any prelicensing education as long as it is within 12 months of the expiration date.
- e. Continuing education fund [500.1204d]** The continuing education fund is created as a separate, self-supporting fund and shall be administered by the Commissioner. Money in the fund shall be used for the administration of the continuing education requirements; if a shortfall occurs, the monies would be made up of the appointment fees.

C. DISCIPLINARY ACTIONS

1. Suspension, revocation, refusal to issue or renew [500.1200, .1209, .1239, .1242, .1244, .2038, .2040] Producers' licenses are issued on a perpetual basis; that is, as long as the producer fulfills the license maintenance requirements, his license will remain in effect. Licenses terminate when producers voluntarily surrender them or when the licensed is suspended or revoked by the Commissioner.

a. Reasons The Commissioner may suspend, revoke, or refuse to issue an insurance producer license or may levy a fine or do both for the following reasons:

- 1.) Providing incorrect or materially untrue information on a license application;
- 2.) Violating an insurance law, regulation, or order of the Commissioner;
- 3.) Obtaining a license through misrepresentation or fraud;
- 4.) Improperly withholding or misappropriating money received while transacting insurance;
- 5.) Intentionally misrepresenting the terms of an insurance policy or application;
- 6.) Being convicted of a felony;
- 7.) Committing any unfair trade practice or fraud;
- 8.) Using fraudulent, coercive, or dishonest practices or demonstrating incompetence or financial irresponsibility in the conduct of business;
- 9.) Having an insurance producer license denied, suspended, or revoked in another state;
- 10.) Forging a name to any document related to an insurance transaction;
- 11.) Improperly using notes or other materials to complete the insurance licensing examination;
- 12.) Knowingly accepting insurance business from an unlicensed individual;
- 13.) Failing to comply with a court order to pay child support; and
- 14.) Failing to pay the single business tax or the Michigan business tax.

- b. Process** Before the Commissioner denies an application for a license, he must inform the applicant in writing and explain the reasons for the denial. Within 30 days of receiving the notification, the applicant may request a hearing before the Commissioner to protest the decision.
 - c.** The license of a business entity may be suspended, revoked, or refused if the Commissioner finds, after a hearing, that the designated producer should have known that any of its partners or employees violated insurance law and did not report the violation to the Commissioner.
 - d.** The Commissioner may refuse to grant a producer's license if the applicant fails to meet the requirements of the background investigation. A license may be suspended or revoked by the Commissioner if the producer fails to maintain the standards needed for licensing or if he violates insurance laws. In an emergency, a license may be suspended to protect the public interest, without a prior hearing. The applicant may request a hearing, which must take place within 20 days of the suspension takes effect. The Commissioner must announce a decision within 30 days of the hearing.
- 2. Penalties, fines, cease and desist order [500.1242, .1244, .1379, .2038, .2040, .2064, .2069]** The Commissioner can issue a cease and desist order against anyone who violates the insurance licensing laws (e.g., transacting insurance without a license). In addition, the Commissioner may order the person to pay a maximum penalty of \$500 for each violation. If the person knew or reasonably should have known of the violation, the Commissioner can assess a maximum penalty of \$2,500 for each violation, up to a combined total of \$25,000. The Commissioner also can order the person to refund any overcharge and return any money obtained illegally to victims of the violation. The Commissioner may also order revocation or suspension of the person's license. If the person then violates the cease and desist order, the Commissioner can assess an additional fine of \$10,000 for each violation of the cease and desist order (up to a maximum of \$50,000), suspend, or revoke the license, or levy the fine and suspend or revoke the license.

D. MARKETING PRACTICES

- 1. Unfair insurance trade practices [500.1239, .1244, .2003, .2006–.2014, .2016–.2021, .2026, .2029]** The Uniform Trade Practices Act prohibits unfair methods of competition, or unfair and deceptive acts in the marketing of insurance. This act bars a producer (or an insurer) from engaging in any of these prohibited practices.
- a. Misrepresentation [500.2005, .2005a, .2055, .2057, .2064, .2218]** A **misrepresentation** is leading someone to believe that certain benefits, conditions, or advantages exist in a policy, when they do not. In short, a misrepresentation is a lie.

 - 1.)** A misrepresentation results from the omission of a material fact or the incorrect statement of a material fact. Misrepresentations, which may be written or oral, include the following:

- a.) Lying or distorting the truth about the terms, benefits, and privileges, advantages, or conditions of an insurance policy;
 - b.) Making false or misleading statements or estimates about dividends to be received under an insurance policy;
 - c.) Lying or distorting the truth regarding the financial condition of an insurer;
 - d.) Using a title for a policy that misrepresents the policy's purpose; or
 - e.) Lying or distorting the truth, or making incomplete policy comparisons for the purpose of inducing an insured to lapse, surrender, forfeit, or replace a policy (also referred to as twisting).
- 2.) The prohibition against misrepresentation applies to all insurers and their officers, directors, producers, and solicitors. If an insurer or individual is found guilty of misrepresentation, the penalty is severe: revocation of one certificate of authority or license for at least one year. Any insurer, producer, solicitor, or firm that misrepresents an insurance policy's terms, benefits, or dividends, or provides illegal rebates or inducements commits a misdemeanor.
- 3.) Misrepresentation of policy benefits is punishable by a maximum fine of \$1,000 for each violation or imprisonment in jail. Providing illegal rebates or inducements is punishable by a maximum fine of \$1,000 for each violation and/or imprisonment in jail. Conviction of either misrepresentation or rebating also will result in license revocation. No new license will be issued for at least one year after conviction.
- 4.) **Misrepresentation of insurer's finances [500.2055]** It is a misdemeanor for any insurance corporation organized or operating within Michigan to falsely represent that:
- its capital stock is greater than its actual amount;
 - its accumulation is greater than its actual cash or market value; or
 - its financial condition is not what it actually is.
- a.) Every director or officer of an insurer guilty of such a misrepresentation will be deemed guilty of a misdemeanor punishable by a fine not exceeding \$100, or by imprisonment not exceeding three months, or by both fine and imprisonment, in the discretion of the court.
 - b.) Any officer or agent guilty of any intentional violation of this section, or who aids or abets others in any such a violation, will be deemed guilty of a misdemeanor punishable by a fine not exceeding \$1,000, or by imprisonment not exceeding six months, or by both such fine and imprisonment, in the discretion of the court.

- b. False information and advertising [500.2001, .2002, .2005, .2005a, .2007, .2055, .2057, .2064; R500.651–.669; R500.1371–.1387]** Any advertisement, announcement, or statement containing misleading, unfair, or deceptive information is prohibited.
- 1.) Specifically, it is an unfair and prohibited practice to make, publish, circulate, or place before the public (as in any printed or audible form) an advertisement, announcement, or statement containing any assertion, representation, or statement about the insurance business, or with respect to any person in the conduct of his insurance business, which is untrue, deceptive, or misleading.
 - 2.) No insurer, department, or general agency of an insurer doing business in Michigan may issue any false or misleading advertisements through newspapers or other periodicals, or by signs, cards, letterheads, and the like, which intend to conceal or misrepresent the issuer's true identity. Furthermore, no insurer, department, or general agency of an insurer doing business in Michigan may issue any advertisement or representation of any type that gives the appearance that the department or agency is a separate or independent insuring organization. The type or lettering used in any advertisement must set forth the name of the company assuming the risk more conspicuously than the name of any department or general agency.
 - 3.) Any violation of these rules regarding the identity of the insurer is a misdemeanor with a maximum fine of \$500.
- c. Twisting [500.2005(f), .2064(2)]** Twisting is the act of inducing a person to drop existing insurance coverage and purchase new insurance with a new producer or company.
- 1.) The inducement to drop existing coverage could take the form of a rebate, a misrepresentation, or an incomplete comparison of the financial condition of an insurer.
 - 2.) Twisting is a misdemeanor punishable by license revocation for up to one year. It also carries a maximum fine of \$1,000 for each violation, or imprisonment in the county jail.
- d. Defamation [500.2007, .2009; 600.2911; 750.3149; R500.662, .1377(14)]** Unfair methods of competition include **defamation**—making an oral or written statement that is false, malicious, or derogatory regarding the financial or personal condition of a person engaged in the business of insurance.
- 1.) Anyone in the course of business, insurer, agent, or solicitor may not use any false statement regarding any person or company. Any actions based on libel or slander can be a criminal offense, and damages can be awarded.

- 2.) An advertisement may not:
 - directly or indirectly make unfair or incomplete comparisons of policies, or benefits or comparisons of noncomparable policies of other insurers; or
 - disparage competitors, their policies, services, or business methods or disparage or unfairly minimize competing methods of marketing business.
 - 3.) Any person who transmits any untrue, false, or malicious statement as to the financial condition of any fraternal beneficiary society, insurance company, reciprocal exchange, or other insurer doing business in Michigan is guilty of a misdemeanor punishable by imprisonment for not more than one year or a fine of not more than \$1,000.
- e. **Boycott, coercion, and intimidation [500.1242, .2012]** Any act of boycott, coercion, or intimidation that results in or can result in an unreasonable restraint of insurance business is prohibited. They are considered methods of unfair competition.
- f. **Unfair Discrimination [500.2019, .2020, .2027, .2082]** Any unfair discrimination between similar risks or individuals with regard to life or health insurance is an unfair method of competition and a violation of the Uniform Trade Practices Act.
- 1.) Examples of discriminatory acts include:
 - refusing to insure or limiting coverage because of the race, color, creed, sex, or national origin of the insurance applicant;
 - refusing to insure because of a person's residence, age, handicap, or lawful occupation;
 - refusing to insure solely because the applicant was previously denied insurance coverage by another insurer; and
 - charging a different rate for the same coverage based on sex, age, residence, handicap, or lawful occupation, unless the rate differential is based on sound actuarial principles.
 - 2.) A life insurer may not make any distinction based on race or color with regard to premiums or types of coverage available. An insurer who violates this requirement will be subject to a \$500 fine for each violation. Any company officer or producer who violates this law will be guilty of a misdemeanor punishable by imprisonment for up to one year, a fine of at least \$50 but less than \$500, or by both fine and imprisonment.

g. Rebating and illegal inducements [500.2024, .2066, .2069, .2070] Rebating is an inducement to buy insurance that, if not specified in the contract, is illegal. Illegal inducements include payment of part of the producer's commission, premium, gifts, services, or anything of value that is designed to entice a person to purchase insurance. It is illegal to issue or deliver agency common stock, other capital stock, securities, shares, or benefit certificates in any common law corporation, advisory board contracts, or other contracts promising returns and profits as an inducement to buy insurance.

- 1.) No insurer may offer a rebate of the premium payable on any policy as an inducement for insurance unless it is specified in the contract for insurance. Furthermore, no insurer can misrepresent the terms of any insurance policy it offers. Such misrepresentation can result in the revocation of the insurer's license. However, life insurance producers are allowed to give their applicants token gifts or merchandise valued at \$5 or less.
- 2.) Payment of an illegal rebate or inducement is a misdemeanor that carries a maximum fine of \$100 for each violation, or imprisonment in the county where the offense was committed. The Commissioner also will revoke the producer's license for up to one year. A person who accepts a rebate also is subject to a maximum fine of \$100 and a reduction in the value of the policy in proportion to the value of the rebate.

h. Producer responsibilities Licensed insurance producers must fulfill certain professional responsibilities in the conduct of their business. Two of these are described below.

- 1.) **Fiduciary responsibilities [500.1207]** A producer is considered to be a **fiduciary**—that is, a person in a position of financial trust to both the insurance buyer and the insurer. As such, a producer must promptly remit all premiums and insurance proceeds to the insurer, and maintain records of all funds received. Premium accounts must be maintained separately from the producer's personal accounts. Failure to account for all fiduciary funds can subject the agency to disciplinary action.
- 2.) **Commission sharing [500.1240]** A producer may share commissions with another licensed resident or nonresident producer only. It is a violation for a producer to share commissions with a nonlicensed individual or to provide financial rewards or share commissions with persons who may provide the producer with sales leads.
- 3.) **Medicare supplements [500.2011]** It is an unfair method of competition and an unfair act for the insurer to provide a commission or other compensation to the insurer's representative or agent for the sale or service of any Medicare supplement policy issued to an individual eligible for Medicare, unless the amount of the commission or compensation paid in the first year of the policy is not more than the amount of the commission or compensation that the insurer's representative or agent receives for the policy in each of the two subsequent, consecutive annual renewal periods.

- i. Claims, methods, and practices [500.2006, .2026]** An insurer must pay on a timely basis to its insured or entity directly entitled to benefits under its insured's contract of insurance, or, in the alternative, the insurer must pay to its insured 12% interest on claims not paid on a timely basis. Failure to pay claims on a timely basis or to pay interest on claims is an unfair trade practice unless the claim is reasonably in dispute.
- 1.)** If benefits are not paid on a timely basis, the benefits paid shall bear simple interest from a date 60 days after satisfactory proof of loss was received by the insurer at the rate of 12% per annum.
 - 2.)** An insurer shall specify in writing the materials that constitute a satisfactory proof of loss not later than 30 days after receipt of a claim unless the claim is settled within the 30 days. If proof of loss is not supplied for the entire claim, the amount supported by proof of loss shall be considered paid on a timely basis if paid within 60 days after receipt of proof of loss by the insurer.
 - 3.)** Unfair methods of competition and unfair or deceptive acts or practices in the business of insurance, other than isolated incidents, are a course of conduct indicating a persistent tendency to engage in that type of conduct and include:
 - misrepresenting pertinent facts or insurance policy provisions relating to coverages at issue;
 - failing to acknowledge promptly or to act reasonably and promptly upon communications with respect to claims arising under insurance policies;
 - failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies;
 - refusing to pay claims without conducting a reasonable investigation based upon the available information;
 - failing to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed;
 - failing to attempt in good faith to effectuate prompt, fair, and equitable settlements of claims in which liability has become reasonably clear;
 - compelling insureds to institute litigation to recover amounts due under an insurance policy by offering substantially less than the amounts due the insureds;
 - attempting to settle a claim for less than the amount to which a reasonable person would believe the claimant was entitled, by reference to written or printed advertising material accompanying or made part of an application;
 - attempting to settle claims on the basis of an application which was altered without notice to, or knowledge or consent of, the insured;
 - making a claims payment to a policyholder or beneficiary omitting the coverage under which each payment is being made;

- making known to insureds or claimants a policy of appealing from arbitration awards in favor of insureds or claimants for the purpose of compelling them to accept settlements or compromises less than the amount awarded in arbitration;
 - delaying the investigation or payment of claims by requiring an insured, claimant, or the physician of either to submit a preliminary claim report and then requiring subsequent submission of formal proof of loss forms, seeking solely the duplication of a verification;
 - failing to promptly settle claims where liability has become reasonably clear under one portion of the insurance policy coverage to influence settlements under other portions of the insurance policy; and
 - failing to promptly provide a reasonable explanation of the basis in the insurance policy in relation to the facts or applicable law for denial of a claim or for the offer of a compromise settlement.
- 4.) The failure of a person to maintain a complete record of all the complaints of its insureds which it has received since the date of the last examination is an unfair method of competition and unfair or deceptive act or practice in the business of insurance. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition thereof, and the time it took to process each complaint.
- 5.) **Health claims** In the case of health care providers, vendors, and facilities, properly filed and documented claims must be paid within 45 days of receipt. A claim that is not paid within this period will bear simple interest at a rate of 12% per year. Health insurers are to notify the health care providers, vendors, and facilities within 30 days after receipt of the claim if it is deficient in any way.
- Then the health care provider, vendor, or facility has at least 45 more days in which to correct the claim's deficiencies. However, if the claim's deficiencies are remedied, the insurer must still pay the claim within the first 45-day period allowed for payment of a properly filed and documented claim. If the claim cannot be properly filed within the 45-day period, the insurer will notify the health care provider, vendor, or facility that the claim cannot be paid and give reasons for this determination.
 - Health care providers, vendors, and facilities must bill a health insurance plan within one year after services are rendered or a patient is discharged from a health care facility.
 - Absent any contractual arrangements to the contrary, once an insurer determines that one or more services billed for on a claim are payable, it must pay for those services immediately. It cannot deny the entire claim because only one or more services on the claim are deficient.
 - Failure to comply with these regulations will subject the violator to a civil fine of up to \$1,000 for each violation, with total fines for multiple violations not to exceed \$10,000.

j. Other unfair or prohibited practices [500.2006, .2018, .2038, .2218 Bulletin AD 72–2]

1.) Misrepresentation in insurance applications False or fraudulent statements or representations on an insurance application for the purpose of obtaining money, commission, or other benefit from an insurer or producer constitute an unfair method of competition and violate the Unfair Trade Practices Act.

- If a person misrepresents the fact that he has had medical treatment on an insurance application, it is the same as misrepresenting the fact that he has not had the condition that required the treatment. If in any action to rescind the contract, the insurer can prove that the misrepresentation occurred, the misrepresentation will be considered material.

2.) False statements [500.1015, .1239, .2014, .2018, .2055, .2062, .2474, .2666]

- a.)** Unfair methods of competition and unfair or deceptive acts or practices in the business of insurance include:
- making or delivering a false material statement of financial condition of a person engaged in the business of insurance; or
 - making a false entry of a material fact in a book, report, or statement, or omitting to make a true entry of a material fact pertaining to the business of a person engaged in the business of insurance.
- b.)** No person or organization may willfully withhold information from or knowingly give false or misleading information to the Commissioner, which will affect the rates or premiums chargeable under law. A violation of this section shall subject the one guilty of such violation to appropriate penalties.
- c.) Forgery** Forging another's name to an application or any other document related to an insurance transaction is an unfair trade practice.
- d.)** It is unlawful for any person authorized to do business in Michigan to make a statement or report to fraudulently conceal facts. Fraudulent statements intentionally made will result in forfeiture of the corporate franchise and, if the insurer is organized under the laws of any other state or government, will be cause for revocation of the insurer's authority to do business in Michigan by the Commissioner, after hearing is granted. Any officer or agent guilty of a fraudulent statement, or who aids or abets others in any such violation, will be deemed guilty of a misdemeanor and upon conviction will be punished by a fine not exceeding \$1,000, by imprisonment not exceeding six months, or both.

3.) Prohibited insurance refusal based on arbitration agreements [500.2010] It is an unfair method of competition and an unfair or deceptive act or practice in the business of insurance for a malpractice insurer to refuse to offer insurance to a health care provider on the grounds that the health care provider has entered or intends to enter into valid written contracts with patients or prospective patients for the arbitration of cases or controversies arising out of the professional or business relationships between a patient and the health care provider or hospital.

4.) Penalties The Commissioner will issue a cease and desist order for any violation of the act. The following penalties also may be imposed for convictions of unfair or prohibited practices:

- a maximum fine of \$500 for each violation, not to exceed \$5,000 in total;
- a maximum fine of \$2,500 for each violation, not to exceed \$25,000 for all violations committed in a six-month period if the person knowingly violated the act;
- suspension or revocation of the person's license or certificate of authority if the person knowingly violated the act; and
- refund of any overcharges.

a.) Anyone who violates the Commissioner's cease and desist order is subject to further penalties. The Commissioner can assess a maximum penalty of \$10,000 for each violation of the cease and desist order, suspend or revoke the person's license or the firm's certificate of authority, or levy both the fine and suspend or revoke the license or certificate of authority.

k. Insurance fraud regulation [500.2088, .4501, .4503, .4507, .4509, .4511, .8197; 752.1003, .1005]

1.) False claims [500.2088] Anyone who makes or arranges to make a false or fraudulent certificate of death, sickness, or disability; or who files a false or fraudulent claim for death, sickness, or disability with an insurer, is guilty of a misdemeanor. Conviction can result in a fine of up to \$1,000 or imprisonment for up to three months.

2.) Insurance fraud [500.4501] Fraudulent insurance acts are characterized by acts or omissions that a person does knowingly and with the intent to injure, defraud, or deceive.

3.) Fraudulent insurance acts [500.4503] A fraudulent insurance act includes, but is not limited to, acts or omissions committed by any person who knowingly, and with an intent to injure, defraud, or deceive:

- presents, causes to be presented, or prepares with knowledge or belief that it will be presented to or by an insurer or any agent of an insurer any oral or written statement knowing that the statement contains any false information concerning any fact material to an application for the issuance of an insurance policy;
- prepares or assists, abets, solicits, or conspires with another to prepare or make an oral or written statement that is intended to be presented to or by any insurer in connection with any application for the issuance of an insurance policy, knowing that the statement contains any false information concerning any fact or thing material to the application;
- presents or causes to be presented to or by any insurer any oral or written statement including computer-generated information as part of, or in support of, a claim for payment or other benefit pursuant to an insurance policy, knowing that the statement contains false information concerning any fact or thing material to the claim;
- assists, abets, solicits, or conspires with another to prepare or make any oral or written statement including a computer-generated document that is intended to be presented to or by any insurer in connection with, or in support of, any claim for payment or other benefit pursuant to an insurance policy, knowing that the statement contains any false information concerning any fact or thing material to the claim;
- solicits or accepts new or renewal insurance risks by or for an insolvent insurer;
- removes or attempts to remove the assets or records of assets, transactions, and affairs, or a material part of the assets or records, from the home office or other place of business of the insurer or from the place of safekeeping of the insurer, or who conceals or attempts to conceal the assets or record of assets, transactions, and affairs, or a material part of the assets or records, from the Commissioner;
- diverts, attempts to divert, or conspires to divert funds of an insurer or of other persons in connection with
 - the transaction of insurance or reinsurance,
 - the conduct of business activities by an insurer, or
 - the formation, acquisition, or dissolution of an insurer;
- knowingly and willfully assists, conspires with, or urges any person to fraudulently violate this act, or any person who due to that assistance, conspiracy, or urging knowingly and willfully benefits from the proceeds derived from the fraud; or

- employs, uses, or acts as a runner, capper, or steerer with the intent to falsely or fraudulently obtain benefits under a contract of insurance or to falsely or fraudulently assert a claim against an insured or an insurer for providing services to the client, patient, or customer.
 - Runner, capper, or steerer means a person who receives any financial benefit or other benefit from a practitioner, whether directly or indirectly, for procuring or attempting to procure a client, patient, or customer at the direction or request of, or in cooperation with, a practitioner whose intent is to obtain benefits under a contract of insurance or to assert a claim against an insured or an insurer for providing services to the client, patient, or customer. Runner, capper, or steerer does not include a practitioner who procures clients, patients, or customers through the use of public media.

4.) Release of information [500.4507] Upon written request, the insurer or agent is required to turn over any and all documents considered important relating to any suspected insurance fraud.

5.) Immunity from liability [500.4509] A person acting without malice is not subject to liability for filing a report or requesting or furnishing orally or in writing other information concerning suspected or completed insurance fraud, if the reports or information are provided to or received from the insurance bureau; the National Association of Insurance Commissioners; any federal, state, or governmental agency established to detect and prevent insurance fraud; and any other organization, and its agents, employees, or designees, unless that person knows that the report or other information contains false information pertaining to any material fact or thing.

a.) In a prosecution for perjury or insurance fraud, and in the absence of malice, an insurer, or any officer, employee, or agent of an insurer, or any private person who cooperates with, furnishes evidence, or provides or receives information regarding suspected insurance fraud to or from an authorized agency, the National Association of Insurance Commissioners, or any organization, or who complies with an order issued by a court acting in response to a request by any of these entities to provide evidence or testimony, is not subject to civil liability with respect to any act concerning the suspected insurance fraud that the person testifies to or produces relevant matter, unless that person knows that the evidence, information, testimony, or other matter contains false information pertaining to any material fact or thing.

6.) Penalties [500.4511, 752.1005] Anyone who commits a fraudulent insurance act is guilty of a felony and subject to imprisonment for up to four years or a fine of up to \$50,000, or both, and must also pay restitution. A person who conspires to commit insurance fraud is subject to imprisonment for up to 10 years or a fine of up to \$50,000, or both, and must also pay restitution.

7.) False claims: violations; penalties for health care [752.1003, .1005] The rules and regulations in the above paragraphs are true for anyone that makes or presents any false or fraudulent claim for health care benefits.

8.) False or fraudulent statements regarding fraternal benefit societies [500.8197] A person, officer, member, or examining physician of any society authorized to do business under this chapter, who knowingly or willfully makes a false or fraudulent statement or representation in or with reference to an application for membership, or for the purpose of obtaining money from or benefit in any society transacting business, is guilty of a misdemeanor, and upon conviction shall be punished by imprisonment for not less than 30 days or more than one year, or by a fine of not less than \$100 or more than \$500, or both.

a.) A person who willfully makes a false statement of a material fact or thing in a sworn statement as to the death or disability of a certificateholder in a society for the purpose of procuring payment of a benefit named in the certificate of the holder, and a person who willfully makes a false statement in a verified report or declaration under oath required or authorized, is guilty of perjury.

b.) Upon conviction, the person shall be punished by imprisonment for not more than five years or by a fine of not more than \$5,000, or both.

c.) A person who solicits membership for or in any manner assists in procuring membership in a society not licensed to do business in this state is guilty of a misdemeanor punishable by a fine of not less than \$50 or more than \$200.

I. Consumer privacy regulation [500.501, .505, .507, .515, .535, .2005a, .4501, .4507, .4509]

1.) Scope of regulations The state protects the nonpublic personal financial information of individuals who buy, obtain, or make claims of insurance products or services for personal or family purposes from producers or insurers.

2.) Privacy notice A licensee must give a clear and conspicuous notice of its privacy practices and policies to any persons who become customers, at the time they establish this relationship.

- 3.) If a licensee does not want to reserve the right to disclose nonpublic personal financial information about customers or former customers to affiliates or nonaffiliated third parties, the licensee may state that fact as part of a simplified notice.

PRIVACY NOTICE

“Neither the U.S. brokers that handled this insurance nor the insurers that have underwritten this insurance will disclose nonpublic personal information concerning the buyer to nonaffiliates of the brokers or insurers except as permitted by law.”

4.) **Notice and opt out requirement exception [500.505, 500.535]**

- a.) A licensee is not required to provide the notice and opt out requirements for nonpublic personal financial information if the licensee is an employee, agent, or other representative of a principal and all of the following are met.
- The principal is another licensee.
 - The principal otherwise complies with and provides the notices required.
 - The licensee does not disclose any nonpublic personal information to any person other than the principal or its affiliates.
- b.) A licensee is not required to provide the notice and opt out requirements for nonpublic personal financial information if the licensee is providing information to a nonaffiliated third party to perform services for the licensee or functions on the licensee’s behalf, if the licensee does both of the following:
- Provides the initial notice
 - Enters into a contractual agreement with the third party that prohibits the third party from disclosing or using the information other than to carry out the purposes for which the licensee disclosed the information

5.) **Confidentiality in investigations and proceedings [500.1246]**

- a.) Any documents, materials, or other information in the control or possession of the office of financial and insurance services that is furnished by an insurer, an insurance producer, or an employee or representative acting on behalf of the insurer or insurance producer, or obtained by the Commissioner in an investigation, is confidential and privileged and is not subject to:
- the Freedom of Information Act;

- subpoena; or
- discovery.

b.) However, the Commissioner is authorized to use the documents, materials, or other information in the furtherance of any regulatory or legal action brought as a part of the Commissioner's duties.

II. MICHIGAN LAWS, RULES, AND REGULATIONS PERTINENT TO PROPERTY AND CASUALTY ONLY

A. PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION

[500.7901 to .7949] The Michigan Property and Casualty Insurance Guaranty Association protects insureds against insurer insolvencies.

1. The Association is made up of all insurers authorized to sell insurance, other than life or health insurance, in Michigan.
2. Claims covered by the Association in the event of an insurer's insolvency are claims that:
 - derive from insurance policies issued or payable to Michigan residents;
 - are unpaid by an insolvent authorized insurer;
 - are presented to the Association before the fixed filing date;
 - existed before or were incurred within 30 days of the appointment of the receiver;
 - arise out of insurance other than life or health; and
 - arise out of insurance policies issued on or before the last date the insurer was a member insurer.
3. No coverage is provided for claims that:
 - involve refunds of unearned premium over \$500;
 - were incurred after the expiration date of the insurance policy, after the policy was replaced by the insured, or after it was cancelled by the Association;
 - are made by insurers, insurance pools, underwriting associations, or persons of substantial net worth (a net worth greater than .01% of the aggregate premiums written by the member insurers in the preceding calendar year);
 - involve a portion of the claim that exceeds policy limits;
 - involve a portion of the claim that exceeds .02% of the aggregate premiums written by member insurers in the preceding calendar year; or
 - involve adjustment fees and expenses, attorneys' fees and expenses, court costs, interest, or bond payments incurred before the receiver was appointed.
4. The association will pay covered claims up to the policy limit or \$5,000,000, whichever is less.

5. Board of governors [500.7912] The association is managed by a board of governors, composed of five member insurers and two persons representing the general public, each of whom is appointed by the Commissioner to serve for terms of three years. Three of the governors who are member insurers must be domestic insurers and two must be foreign insurers. At least two governors who are member insurers must be stock insurers and at least two must be nonstock insurers. The five governors who are member insurers must be representative, as nearly as possible, of all the kinds of insurance coverage administered by the Association.

6. Duties and powers [500.7918]

- a. The association may sue or be sued, and may use the courts to assert or defend any rights the association may have under law, to the extent necessary to fully exercise its rights and perform its duties.
- b. The association may retain and employ legal counsel in its discretion to represent the association in all respects.
- c. Upon request of the Commissioner, consent of the association, and appointment by the court, the association may act as deputy receiver in delinquency proceedings.

7. Assessments [500.7941]

- a. To the extent necessary to secure funds for the association for payment of covered claims and for payment of reasonable costs of administering the association, including the cost of indemnifying members of the board of governors, other member insurers, officers, employees, and other persons acting on behalf of the association to the extent permitted by law and the plan of the operation, the association may levy assessments upon all member insurers. The association will allocate its claim payments and costs to the following five categories:
 - Workers' compensation insurance
 - Automobile insurance
 - Title insurance
 - Fire, allied lines, farm owner's multiple peril, homeowner's multiple peril, inland marine, earthquake, and credit insurance
 - All other kinds of insurance except life and disability insurance
- b. A member insurer may not be assessed for more than 1% of its net direct premiums written in Michigan during the previous year.

8. Immunity from liability [500.7948] There is no liability on the part of any member insurer, the association, agents or employees of the association, the board of governors, or the Commissioner or representatives of the Commissioner for any action taken by them in the exercise of their powers and performance of their duties.

9. The Association will continue coverage under each policy in force until the earliest of 30 days after the receiver is appointed or the policy has expired, been replaced, or cancelled.
10. The Association may cancel policies by mailing 10 days' written notice of cancellation to the last known address of the insured.

B. MANDATORY FIRE POLICY PROVISIONS [500.2833] Each fire insurance policy issued or delivered in this state shall contain the following provisions:

- That the policy will provide coverage for the actual cash value of the property at the time of the loss
 - It is the insured's responsibility to notify the insurance company when a loss occurs. The insurer may repair, replace, rebuild, or take the property. The insured may not abandon the property, and any loss shall be paid within 30 days from the receipt of proof of loss. Losses cannot exceed one year, unless the insurer allows. The insurer has subrogation rights to the extent of the loss.
- That the policy shall provide coverage for direct loss by fire and lightning and pro rata coverage for five days for insured property removed to another location if it is moved to preserve it from damage by a covered peril
- That the policy may be void on the basis of misrepresentation, fraud, or concealment
- Property that is not covered under the policy and those perils that are not covered
- A provision for waiving or changing a provision under the policy

1. Cancelling the policy The policy may be canceled at any time at the request of the insured. The minimum earned premium shall not be less than the pro rata premium for the expired time or \$25, whichever is greater. The policy may be canceled at any time by the insurer by mailing to each insured named in the policy at the insured's address last known to the insurer or an authorized agent of the insurer, not less than 10 days before the cancellation, a written notice of cancellation with or without tender of the excess minimum earned premium.

2. Mortgagee clause If a loss is payable under the policy, in whole or in part, to a designated mortgagee not named in the policy as the insured, the interest in the policy may be canceled by the insurer by giving to the mortgagee not less than 10 days' written notice of cancellation. If the insured fails to render proof of loss, the mortgagee, upon notice, shall render proof of loss within 60 days after the notice. If the insurer claims that no liability existed as to the mortgagor or owner, it shall, to the extent of payment of loss to the mortgagee, be subrogated to all the mortgagee's rights of recovery, but without impairing the mortgagee's right to sue, or the insurer may pay off the mortgage debt and require an assignment of the debt and of the mortgage.

3. Other insurance The insurer's liability shall not be greater than the pro rata share with other insurance for the peril involved.

4. Appraisal clause If the insured and insurer fail to agree on the actual cash value or amount of the loss, either party may make a written demand that the amount of the loss or the actual cash value be set by appraisal. If either makes a written demand for appraisal, each party shall select a competent, independent appraiser and notify the

other of the appraiser's identity within 20 days after receipt of the written demand. The two appraisers shall then select a competent, impartial umpire. If the two appraisers are unable to agree upon an umpire within 15 days, the insured or insurer may ask a judge of the circuit court for the county in which the loss occurred or in which the property is located to select an umpire. The appraisers shall then set the amount of the loss and actual cash value as to each item. If the appraisers submit a written report of an agreement to the insurer, the amount agreed upon shall be the amount of the loss. If the appraisers fail to agree within a reasonable time, they shall submit their differences to the umpire. Written agreement signed by any two of these three shall set the amount of the loss. Each appraiser shall be paid by the party selecting that appraiser. Other expenses of the appraisal and the compensation of the umpire shall be paid equally by the insured and the insurer.

5. Each fire insurance policy shall be effective at 12:01 am, standard time, at the location of the property involved.

C. ESSENTIAL INSURANCE ACT [500.2101--2131] This Act was created to provide fair and uniform standards for personal lines insurance coverage for consumers, while maintaining a robust and competitive insurance marketplace for insurers.

1. Eligible person for homeowners insurance [500.2103] An eligible person for homeowners insurance is a person who lives in and rents or owns a house, condominium, cooperative unit, room, or apartment in Michigan.

- a. An ineligible person is one who, in the last five years, has been convicted of arson or conspiracy to commit arson; malicious destruction of property; violations regarding the use of explosives; evidence of arson, misrepresentation, or fraud; or one who has property that is used for illegal or particularly hazardous purposes.
- b. Also ineligible are persons who:
 - refuse to purchase insurance for the appropriate minimum amounts;
 - have policies that were cancelled for nonpayment in the last two years;
 - wish to insure a dwelling that does not meet the Commissioner's minimum standards of insurability; or
 - have not paid real property taxes due on the property in the last two years.

2. Eligible person for automobile insurance An eligible person for auto insurance is a person who is an owner or registrant of an automobile registered in Michigan, or who holds a valid Michigan license to operate a motor vehicle.

- a. A person is ineligible if:
 - their driver's license is currently suspended or revoked;
 - the person has been convicted within the immediately preceding five-year period of fraud or intent to defraud involving an insurance claim or application, or has been denied payment by an insurer of an automobile insurance claim in excess of \$1,000 due to fraud; or

- in the preceding three-year period has been convicted of
 - any felony resulting from the operation of a motor vehicle,
 - operating motor vehicle while intoxicated,
 - an accident resulting in serious impairment of body function or death, or any personal injury to another person or any damage to another vehicle, or
 - reckless driving.
 - b. Also ineligible is a person whose vehicle, insured under the policy, fails to meet the motor vehicle safety requirements, or a person whose policy of automobile insurance has been canceled because of nonpayment of premium within the immediately the preceding two years.
- 3. Filing of rates [500.2107, .2108]** The Commissioner conducts a review of the filing on an informal basis. A filing not disapproved within 60 days after its submission is considered approved. Each filing of the rates must be accompanied by a certification by the insurer that the insurer conforms to the requirements of rates and are available for public inspection.
- 4. Ratemaking standards [500.2109]** Rates must not be excessive, inadequate, or unfairly discriminatory.
- 5. Automobile repair rights [500.2010b]** An automobile insurance company may not unreasonably restrict an insured from using a particular auto shop, entity, or place when repairing an auto or for auto service. If the insurer has an agreement with any repair shop, such an agreement must be disclosed to the insured prior to any claim.
- 6. Risk classification [500.2111]**
- a. Home insurance risks must be grouped by territory, and a territorial base rate must be established. Rates must be filed with the Commissioner, but generally are not subject to prior approval. Rate classifications for homeowners insurance must be based on the:
 - amount of insurance and type of coverage;
 - security and safety devices that include smoke detectors, locks, etc.;
 - repairable structural defects related to the risk;
 - fire protection class;
 - construction of the dwelling, based on size, building materials, and number of units;
 - loss experience of the insured;
 - use of smoking materials inside the dwelling;
 - distance from a fire hydrant; and
 - availability of law enforcement or crime prevention services

- b.** Automobile insurance rates must be based upon one or more of the following factors, which must be applied by an insurer on a uniform basis throughout the state:
- Either the age of the driver, the length of driving experience, or the number of years licensed
 - The primary driver of the vehicle
 - Average miles driven weekly, annually, or both
 - Type of use, such as business, farm, or pleasure
 - Vehicle characteristics, features, and options
 - Daily or weekly commuting mileage
 - Number of cars insured and number of licensed operators in the household
 - Amount of insurance
- 1.) Premium surcharges are allowed for substantially at-fault accidents and motor vehicle violations.
 - 2.) Automobile risks may be grouped by territory.
 - 3.) Automobile risk classifications may not be based on sex or marital status.
 - 4.) Discounts are available to people driving over the age of 50 who successfully complete a traffic accident prevention course.

7. Notice of rating system [500.2112] At least annually, in conjunction with a renewal notice, a bill, or other notice of payment due issued to a policyholder in conjunction with automobile and home insurance contracts, an insurer must send to each policyholder a written notice of all of the following:

- A description of the specific rating classifications, by which the rates and premiums for the policy have been determined
- A general explanation of the extent to which rates or premiums vary among insureds on the basis of the rating classifications used by the insurer
- Sources and reasonable procedures, by which the individual can obtain from the insurer additional information sufficient to calculate and confirm the accuracy of her specific premium
- Relevant information regarding rights to appeal the application of the insurer's rating plan in determining his premium
- A description of the insurer's and affiliates underwriting rules based upon insurance eligibility points
- A suggestion that the insured contact her agent to determine if she is eligible for insurance from an affiliate or under a different rating plan that would provide insurance at a lower premium

- 8. Disputes between insured and insurer [500.2113]** A person who has reason to believe that an insurer has improperly denied him automobile insurance or home insurance, or has charged an incorrect premium for that insurance, is entitled to a private informal managerial-level conference with the insurer and to a review before the Commissioner, if the conference fails to resolve the dispute. If the insurer fails to provide a conference and proposed resolution within 30 days after a request by a person, or if the person disagrees with the proposed resolution of the insurer after completion of the conference, the person is entitled to a determination of the matter by the Commissioner.
- 9. Grievance procedure [500.2114]** A person or organization aggrieved with any filing that is in effect and that affects the person or organization, may make written application to the Commissioner for a hearing on the filing.
- 10. Producer duties [500.2116, .2122]** Licensed producers of automobile and homeowners insurance in Michigan must:
- provide a quote for the type of coverage requested by the qualified applicant;
 - tell the qualified applicant the number of insurers the producer represents and provide additional quotes upon request;
 - not channel an eligible applicant away from an insurer or coverage to avoid submitting an application;
 - submit applications of eligible applicants for homeowners or automobile coverage to the insurer selected by the applicant; and
 - supply, annually on renewal, a statement to the insured for automobile coverage explaining the insurance point system and stating that the applicant may qualify for insurance elsewhere at a possibly lower rate and that the producer will furnish quotations on request.
- 11. Underwriting rules [500.2117, .2118, .2120]** As a condition of maintaining its certificate of authority, an insurer cannot limit the coverage available to or refuse to insure or continue to insure an eligible person for home or automobile insurance, except according to the underwriting rules approved by the Commissioner.
- a. An insurer may not establish underwriting rules for home insurance different from those of its affiliates that provide identical coverage.
 - b. The underwriting rules an insurer may establish for home insurance must be based only on:
 - the eligible-person standards listed previously;
 - the physical condition of the property based on the perils insured against and provisions of a housing or safety code, manufacturer's specification, or similar standards;
 - for the renewal of a policy, the liability claim history for the last three years, if the claims resulted from the insured's negligence or failure to correct a physical condition of the property after being notified in writing;
 - for a new policy, physical conditions that clearly may create a significant liability loss;

- the relationship between the replacement cost and the market cost of a dwelling, if the insured wishes to purchase a replacement cost policy and the insurer offers a repair cost policy equivalent to the HO 02 (the rate for the repair cost policy must not exceed 105% of the rate for a replacement cost policy with an 80% coinsurance requirement);
 - for nonrenewal of a policy, three paid claims (that were not liability claims) during the last three years that totaled more than \$3,000 (excluding weather-related claims) or more than \$4,000 (including weather-related claims);
 - the number of residential units in the dwelling exceeds those approved for the policy by the Commissioner;
 - the building has been unoccupied for more than 60 days, if there is evidence of the insured's intent to vacate or keep the premises unoccupied;
 - the existence of a significant, adjacent physical hazard related to the perils insured against for which there is no applicable rate surcharge; or
 - for a replacement cost policy, if the person does not purchase more than 80% of the replacement cost when this is a condition of the sale of the policy and the insurer offers a replacement cost policy that requires only 80% coinsurance.
- c.** If an insurer establishes an underwriting rule based upon the relationship between the market value and the actual replacement cost, all the following will apply to the policy.
- 1.)** The insurer will offer a repair cost policy with deductibles, terms, conditions, perils insured against, and amounts of coverage that are equivalent to the same ones provided by the replacement cost policy of the insurer.
 - 2.)** The insurer will not use an underwriting rule based upon the relationship between the market value and replacement cost for the repair cost policy.
 - 3.)** The rates of an insurer for a repair cost policy will be established so that the premium must not exceed 105% of the rate for a replacement cost policy with an 80% coinsurance requirement.
- d.** The underwriting rules that an insurer may establish for automobile insurance must be based only on the following:
- If the insured is an eligible person
 - Insurance eligibility point accumulation in excess of the amounts of a member of the household of the eligible person insured, if the member of the household accounts for 10% or more of the use of a vehicle insured or to be insured
 - If substantial modifications have been made to the vehicle insured from the vehicle's original manufactured state for purposes of increasing speed or acceleration
 - Failure by a person to provide proof of insurance

- Type of vehicle insured or to be insured, based on one of the following, without regard to the age of the vehicle
 - The vehicle is of limited production or of custom nature,
 - The insurer does not maintain a rate for that type of vehicle,
 - Repair cost or replacement cost is too high of an expense for comprehensive or collision coverage,
- Vehicle used for hire, rental purposes, livery, or commercial purposes
- Refusing to insure if a person refuses to accept a required deductible
- The claim experience of the person with respect to comprehensive coverage
- Total abstinence from the consumption of alcoholic beverages except if consumed as part of a religious ceremony

12. Inspection of dwellings [500.2121] If an insurer uses an inspection of a dwelling to determine whether an applicant is eligible for home insurance, the criteria for selecting dwellings for inspection may not be based on:

- location of the dwelling;
- age of the dwelling or its heating, electrical, or structural components;
- market value of the dwelling;
- the amount of insurance; or
- the race, occupation, color, creed, marital status, sex, national origin, residence, age, or handicap of the applicant.

13. Insurance declined [500.2122] When coverage is refused by an insurer, the producer and company share a responsibility to tell the applicant the exact reason for the declination.

- If the request for insurance was in writing, the notification must be in writing.
- If the request was made orally, the notification may be given orally, but an offer must be made to provide a written explanation within 90 days.
- A refusal by a producer to submit an application to a company he represents is considered a declination.

14. Cancellation and nonrenewal [500.2133, .3020] The termination of insurance, other than for nonpayment of premium, cannot take effect unless a written notice is sent to the last known address of the insured at least 30 days before cancellation.

- a. The notice must specify the date of termination and the reason for cancellation.
- b. A notice of termination sent within the first 55 days of policy issuance may take effect not less than 20 days from the date of mailing.
- c. Termination for nonpayment of premium is governed by the policy provisions.

- d. Termination for casualty insurance cannot take place until 10 days from the mailing date of a written notice of cancellation.
- e. In addition, a policy of casualty insurance (not including workers' compensation) may not be issued or delivered in Michigan by an authorized insurer unless the policy provides that it may be cancelled at any time at the request of the insured, in which case the insurer must refund the unearned premium on a pro rata basis.

D. OTHER PROVISIONS [500.2833] Each fire insurance policy issued or delivered in this state shall contain the following provisions (among others).

1. **Appraisal** If the insured and insurer fail to agree on the actual cash value or amount of the loss, either party may make a written demand that the amount of the loss or the actual cash value be set by appraisal. If either party makes a demand for appraisal, each party shall select a competent, independent appraiser and notify the other of the appraiser's identity within 20 days after the receipt of the written demand. The 2 appraisers shall then select a competent, impartial umpire. If the 2 appraisers are unable to agree upon an umpire within 15 days, the insured or insurer may ask a judge of the circuit court for the county in which the loss occurred or in which the property is located to select an umpire. The appraisers shall then set the amount of the loss and actual cash value as to each item. If the appraisers submit a written report of an agreement to the insurer, the amount agreed upon shall be the amount of the loss. If the appraisers fail to agree within a reasonable time, they shall submit their differences to the umpire. Written agreement signed by any 2 of these 3 shall set the amount of the loss. Each appraiser shall be paid by the party selecting that appraiser. Other expenses of the appraisal and the compensation of the umpire shall be paid equally by the insured and the insurer.
2. **Concealment, misrepresentation, or fraud** The policy may be voided on the basis of misrepresentation, fraud, or concealment.

E. HOME BUSINESS INSURANCE COVERAGE This endorsement may be attached to the homeowners policy to extend property coverage (Section I) and liability coverages (Section II) to a business conducted out of the person's residence. The home business insurance endorsement provides broader coverage than a business pursuits endorsement. A list of the major coverages is below.

1. Coverage C limit increased to \$10,000
2. Property coverage for a detached structure used in the business
3. Business Income and Extra Expense coverage
4. Business liability and Medical Payments coverage
5. Product-completed operations liability coverage

III. MICHIGAN LAWS, RULES, AND REGULATIONS PERTINENT TO PROPERTY INSURANCE ONLY

A. SPECIAL PROVISIONS FOR DWELLING POLICY The Special Provisions—Michigan endorsement (DP 01 21) must be attached to all dwelling policies issued to Michigan policyholders. A summary of its major provisions follows.

1. The intentional loss exclusion does not apply in cases of damage by fire to any insured who does not commit an act contributing to that loss.
2. The concealment or fraud provision is modified so that in case of loss caused by fire, only those who engage in concealment or fraud are excluded from coverage; the entire policy is not voided.
3. Subrogation rights may not be waived.
4. The suit against us condition is amended to allow action brought within two years after date of loss.
5. The loss payment condition is amended to stipulate that the insurer must make payment within 30 days of proof of loss.
6. The loss payment and mortgage clause conditions are modified to conform to Michigan Public Act 217.
7. The cancellation/nonrenewal provisions are revised to comply with Michigan law.

B. SPECIAL PROVISIONS FOR HOMEOWNERS POLICY The Special Provisions—Michigan endorsement (HO 01 21) must be attached to all homeowners policies issued to Michigan policyholders. A summary of its major provisions follows.

1. The intentional loss exclusion does not apply in cases of damage by fire to any insured who does not commit an act contributing to that loss.
2. The concealment or fraud provision is modified so that in case of loss caused by fire, only those who engage in concealment or fraud are excluded from coverage; the entire policy is not voided.
3. Subrogation rights may not be waived.
4. The suit against us condition is amended to allow action brought within two years after the date of loss.
5. The loss payment condition is amended to stipulate that the insurer must make payment within 30 days of proof of loss.

6. The loss payment and mortgage clause conditions are modified to conform to Michigan Public Act 217.
7. The cancellation/nonrenewal provisions are revised to comply with Michigan law.

IV. MICHIGAN LAWS, RULES, AND REGULATIONS PERTINENT TO CASUALTY INSURANCE ONLY

A. MICHIGAN MOTOR VEHICLE FINANCIAL RESPONSIBILITY LAW

1. **Minimum policy requirements [RL 257.520]** Michigan requires that the minimum coverage a motor vehicle policy may provide is 20/40/10:
 - \$20,000 per person for bodily injury (BI)
 - \$40,000 per accident for bodily injury
 - \$10,000 for property damage (PD)
2. **Certificate of insurance [RL 257.518]** Proof of financial responsibility may be furnished by filing with the secretary of state the written certificate of any insurance carrier duly authorized to do business in Michigan certifying that a motor vehicle liability policy is in effect.
 - a. The certificate must give the effective date of the policy, and designate all motor vehicles covered, unless the policy is issued to a person who is not the owner of a motor vehicle.
 - b. No motor vehicle may be registered in the name of any person required to file proof of financial responsibility unless the motor vehicle is so designated in such a certificate.
3. **Mandatory provisions** Every motor vehicle liability policy is subject to the following provisions:
 - The policy may not be canceled after the occurrence of covered injury or damage.
 - The satisfaction by the insured of a judgment for injury or damage may not be a condition precedent to the right or duty of the insurance carrier to make payment on account of such injury or damage.
 - The insurance carrier will not be liable on any judgment if it has not had prompt notice of, and reasonable opportunity to, appear in and defend the action in which such judgment was rendered, or if the judgment has been obtained through collusion between the judgment creditor and the insured.
 - Any policy which grants the coverage required for a motor vehicle liability policy may also grant any lawful coverage in excess of or in addition to the coverage specified, and this coverage will not be subject to the provisions of this chapter. With respect to a policy which grants such excess or additional coverage, the term *motor vehicle liability policy* will apply only to that part of the coverage which is required by this section.

B. MICHIGAN AUTOMOBILE INSURANCE PLACEMENT FACILITY

1. **Purpose [500.3301]** The Michigan Automobile Insurance Placement Facility seeks to provide insurance for applicants who cannot obtain such insurance through ordinary methods. The facility is made up of all insurers authorized to write automobile insurance in Michigan.
2. **Eligibility [500.3303, .3365]** Insurance available from the facility is comparable to that available from the standard market.
 - a. Facility rates are based on a weighted average of rates used by the five largest automobile insurers in Michigan and by applying surcharges to those rates.
 - b. Applicants must have a motor vehicle registered in Michigan or hold a valid Michigan driver's license.
 - c. The facility may refuse insurance to those persons who are not legally required to be covered by no-fault insurance, whose driver's licenses are suspended or revoked, or whose policies have been cancelled for nonpayment of premium in the last two years.

C. NO-FAULT AUTOMOBILE COVERAGE

1. **Certificate of insurance [500.3101, .3101a, .3102]** The owner or registrant of a motor vehicle registered in Michigan must maintain security for payment of benefits under personal protection insurance, property protection insurance, and residual liability insurance.
 - a. **Proof of financial responsibility [RL 257.518]** Proof of financial responsibility may be furnished by filing with the secretary of state the written certificate of any insurance carrier duly authorized to do business in this state certifying that there is in effect a motor vehicle liability policy for the benefit of the person required to furnish proof of financial responsibility. The certificate shall give the effective date of the motor vehicle liability policy and state which vehicles are covered in the policy. Security will only be required when the motor vehicle is driven or moved upon a highway.
 - b. An insurer that has issued an automobile insurance policy on a motor vehicle that is not driven or moved upon a highway may allow the insured to delete a portion of the coverage and maintain only the comprehensive coverage part of the policy.
 - 1.) Off-road vehicle (ORV) means a motor-driven recreation vehicle designed for off-road use and capable of cross-country travel without benefit of road or trail, on or immediately over land, snow, ice, marsh, swamp-land, or other natural terrain. ORV includes, but is not limited to, a mul-titrack or multiwheel drive vehicle; a motorcycle or related two-wheel, three-wheel, or four-wheel vehicle; an amphibious machine; a ground effect air cushion vehicle; an ATV; or other means of transportation deriv-

ing motive power from a source other than muscle or wind. ORV does not include a vehicle described in this subdivision that is registered for use upon a public highway and has the security in effect.

- c.** Nonresidents who intend to reside in Michigan for more than 30 days per year must carry security on vehicles they own or have registered.
 - 1.)** This security can be in the form of an insurance policy issued by an insurer authorized in Michigan; or
 - 2.)** In any other form approved by the secretary of state.
- d.** If the vehicle is not being driven or moved on the highway, the insurer may allow the insured to maintain only the comprehensive coverage part of the policy.
- e.** An owner or registrant of a motorcycle (other than a moped) must furnish security for bodily injury and property damage liability.
- f.** First-party medical payments must be offered by insurers of motorcycles in increments of \$5,000.
- g.** Owners or registrants who do not carry required security for their vehicles are guilty of a misdemeanor. If convicted, they are subject to license or registration revocation, or both, and a fine of \$200 to \$500, imprisonment for up to one year, or both.
- h.** The insurer must furnish one certificate of insurance for each insured vehicle to the insured. Any person who furnishes false information to the secretary of state regarding no-fault coverage or who issues or uses an invalid certificate of insurance is guilty of a misdemeanor and may receive a fine up to \$1,000, imprisonment for up to one year, or both.

2. Personal injury protection (PIP) insurance Every automobile liability insurance policy in Michigan must provide personal injury protection (PIP) for the payment of benefits (without regard to negligence) to the insured and members of the insured's family who sustained accidental bodily injury as a result of an accident.

- a.** Accidental bodily injury cannot be the result of an accident involving a parked car unless any of the following occur.
 - 1.)** The vehicle was parked in such a way that it caused unreasonable risk of the bodily injury that occurred.

- 2.) The injury was a direct result of physical contact with equipment permanently mounted on the vehicle, while the equipment was being operated or used or while property was being lifted or lowered from the vehicle.
 - 3.) The injury occurred while the person was occupying, entering, or leaving the vehicle.
 - b. If an injury occurred during the course of employment while moving or operating a parked vehicle and benefits are available under the Workers' Disability Compensation Act or another state or similar federal law, the injury will not be covered under the automobile insurance.
- c. **Benefits provided [500.3105, .3106, .3107, .3108]**

PIP coverage includes:

 - medical services for an injured person's care, recovery, and rehabilitation (this includes charges for a semiprivate room and intensive care);
 - death benefits, including all reasonable burial and cremation expenses (benefits must be at least \$1,750 but may not exceed \$5,000);
 - payment for the loss of income from an income producer of up to 85% of income lost, with a maximum of \$5,189 per 30-day period for three years after the date of the accident (work loss benefits for a person temporarily unemployed are based on the wages earned during the last month of full-time employment);
 - payment of necessary services, that is, services performed by an individual for the care and maintenance of his family, with a limit of \$20 per day for three years;
 - survivor's benefits for loss of a deceased's contribution of things of tangible economic value, other than services, that dependents of the deceased would have received for support during their dependency and for expenses reasonably incurred (not to exceed \$20 per day) in obtaining ordinary and necessary services to replace those that the deceased would have performed for their benefit. Survivor's benefits are payable only for the first three years after the date of the accident and are subject to a maximum amount that is adjusted annually; and
 - payment for nursing services provided in the injured person's home. Payment will be limited to 56 hours per week for services performed by an individual who is not registered or licensed at a rate of \$11 per hour for basic care not to exceed \$17 per hour for skilled care.
- d. **Deductibles and exclusions [500.3109(3), .3109a, .3142]** An insurer providing PIP benefits must offer, at appropriately reduced premium rates, a deductible of no more than \$300 per accident.
 - 1.) These deductibles and exclusions are subject to prior approval by the Commissioner and must apply only to benefits payable to the person named in the policy, the insured's spouse, and any relative of the spouse living in the same household.

- 2.) PIP benefits are payable as loss accrues. PIP benefits are overdue if they are not paid within 30 days after an insurer receives reasonable proof of the existence and amount of the loss.
 - 3.) If the entire claim is not supported by reasonable proof, the amount supported by reasonable proof is overdue if not paid within 30 days; similarly, any remaining parts of the claim later supported by reasonable proof become overdue if not paid within 30 days.
 - 4.) Payment is considered made on the date a draft or other valid payment is placed in the US mail in a properly addressed, postpaid envelope or, if not mailed this way, the date of delivery.
 - 5.) Overdue payments bear simple interest at the rate of 12% per year.
 - 6.) Any other deductible provisions require the prior approval of the Commissioner.
- e. **Exemptions [500.3113]** Insurers may exclude a person from PIP benefits for accidental bodily injury if the person:
- drove the motor vehicle or motorcycle knowingly without the owner's permission, unless the driver reasonably believed he was entitled to take and use the vehicle;
 - was the owner or registrant of the motor vehicle or motorcycle and did not have the required security in effect; or
 - was a nonresident, the motor vehicle or motorcycle was not registered in Michigan, was insured out of state by a nonadmitted carrier, and the policy did not have a clause certifying the policy complies with Michigan law.
- f. **Catastrophic Claims Association [500.3104(1), (2)]** For personal protection insurance losses in excess of \$500,000 in each loss occurrence, member insurers will receive reimbursement from the Michigan Catastrophic Claims Association. The limit is indexed biennially.
- 1.) All insurers writing no-fault insurance are members of the Association.
- g. **Priority of claims [500.3125, .3114(4)]** A person who suffers accidental bodily injury while an operator or passenger of a motorcycle where the accident shows evidence of the involvement of another motor vehicle must claim PIP benefits from insurers in the following order of priority:
- 1.) The insurer of the owner or registrant of the motor vehicle
 - 2.) The insurer of the operator of the motor vehicle
 - 3.) The insurer of the operator of the motorcycle
 - 4.) The insurer of the owner or registrant of the motorcycle

h. Collision coverages [500.3037] An insurer shall offer the following collision coverages to the applicant:

- Limited collision coverage, which shall pay for collision damage to the insured vehicle without a deductible amount when the operator of the vehicle is not substantially at fault in the accident from which the damage arose
- Broad form collision coverage, which shall pay for collision damage to the insured vehicle regardless of fault, with deductibles in such amounts as may be approved by the Commissioner; the deductibles shall be waived if the operator of the vehicle is not substantially at fault in the accident from which the damage arose
- Standard collision, which has a deductible for at-fault and non-fault accidents

3. Property protection insurance (PPI)

a. Benefits provided [500.3121] Property protection insurance pays up to \$1 million per accident for damage done to property arising from the ownership, operation, maintenance, or use of a motor vehicle.

- 1.) The property damage must occur in Michigan and does not include damage to the insured's automobile or other vehicles.
- 2.) Benefits are paid without regard to fault for damage to such property as trees, bridges, signs, legally parked automobiles, and the like owned by someone other than an insured driver or owner.
- 3.) Benefits are payable based on the lesser of reasonable repair cost or replacement costs less depreciation (and, if applicable, the value of loss of use).

b. Exclusions [500.3123] Damage to the following kinds of property is excluded from property protection insurance benefits:

- vehicles and their contents, unless the vehicle is parked in a manner as not to cause unreasonable risk of the damages that occurred;
- property owned by a person or his spouse or relative named in a property protection policy, if his vehicle caused the property damage; and
- property damage from accidents outside Michigan.

c. Priority of claims [500.3125] A person suffering accidental property damage must claim property protection insurance benefits from insurers in the following order of priority:

- 1.) Insurers of owners or registrants of vehicles involved in the accident
- 2.) Insurers of operators of vehicles involved in the accident

- 4. Residual liability coverage** Tort liability arising from the ownership, maintenance, or use within Michigan of a motor vehicle that has the required security is abolished, except in certain limited situations such as intentionally caused harm or damages for noneconomic loss when the injured person suffers death, serious impairment of body function, or permanent serious disfigurement.
- a. Benefits provided [500.3131]** In Michigan, residual liability insurance must cover this potential liability as well as other risks.
- 1.)** Residual liability insurance must also cover bodily injury and property damage that occur within the United States, its territories and possessions, and Canada.
 - 2.)** This insurance must afford coverage equivalent to that required as evidence of automobile liability insurance law by the financial responsibility laws of the place where the damage or injury occurs.
- b. Minimum liability limits [500.3009, RL 257.520]** In Michigan, an owner's auto policy of liability insurance must include at least the following coverage limits (20/40/10):
- 1.)** \$20,000 for bodily injury or death of one person for any one accident
 - 2.)** \$40,000 for bodily injury or death of more than one person for any one accident
 - 3.)** \$10,000 for damage to property of others for any one accident
- 5. Right to sue [500.3135]** Under Michigan's mini-tort limited property damage liability provision, a person remains liable for nonmonetary damages caused by his ownership, maintenance, or use of a motor vehicle only if the injured person suffered death, serious bodily impairment (of a body function that affects his ability to lead a normal life), or permanent serious disfigurement.
- a.** Notwithstanding this provision, the law does not abolish liability arising from the ownership, maintenance, or use of an insured motor vehicle under the following circumstances:
- harm that was intentionally caused to persons or property;
 - damages for nonmonetary (noneconomic) loss;
 - damages for allowable expenses, work loss, and survivor's loss; and
 - damages up to \$1,000 to motor vehicles, to the extent that damages are not covered by insurance.
- b.** A court may award damages to the injured person on the basis of comparative fault, meaning that the court will apportion the fault between the parties, if it is proper to do so.

- c. If a party was uninsured at the time of the accident, that party will not be awarded damages.
- d. A party that is more than 50% at fault for the accident will not be awarded damages.

6. Uninsured motorist coverage (UM) and underinsured motorist coverage (UIM) [R 500.1502] These coverages are optional coverages that can be endorsed on the policy. These coverages must be offered to the insured at time of application, but the insured does have the right to opt out of them in writing. They are not part of Michigan no-fault insurance policy.

- a. UM/UIM coverage has a minimum limit of \$20,000 per person and \$40,000 per accident for bodily injury; higher limits are available. No coverage for damage to the insured vehicle.
- b. Uninsured motorist coverage will protect you and your vehicle occupants for any serious injuries caused by another driven who has no insurance.
- c. Underinsured motorist coverage pays the difference between the insured's actual damages for bodily injury and the amount of liability insurance carried by the driver who was at fault.
- d. One or both coverages are available for purchase.

D. CANCELLATION AND NONRENEWAL

1. Grounds for cancellation [500.3220]

- a. No insurer licensed to write automobile liability coverage after a policy has been in effect 55 days, or if the policy is a renewal, may cancel a policy of automobile liability insurance except for any one or more of the following reasons.
 - During the 55 days following the date of original issue, the risk is unacceptable to the insurer.
 - The named insured or any other operator, either resident of the same household or who customarily operates an automobile insured under the policy, has had his operator's license suspended during the policy period and the revocation or suspension has become final.
- b. The cancellation of a policy of insurance within the 55-day period is not subject to appeal by the insured.

2. Effective cancellation [500.3204] Refusal to renew any policy of automobile liability insurance does not constitute a cancellation unless the insurer fails to mail, 20 days prior to the termination date of the policy, notice to the insured that the policy will not be renewed.

3. Termination of insurance [500.2123, .3020] When canceling an auto policy, the insurer must provide a statement that the insured may not operate or permit the operation of the vehicle unless the vehicle is insured as required by law.

4. Notice of cancellation [500.3224]

- a. No cancellation is effective unless a written notice of cancellation is mailed to the insured.
- b. The notice must be mailed at least 20 days prior to the effective date of cancellation.
- c. The notice must contain the reasons for the cancellation and must state, in bold type, that the insured has the statutory right within seven days from the date of mailing to appeal to the department.

E. DISCLOSURE OF AFTERMARKET CRASH PARTS [RL 257.1361–.1364] If an insurer requests the use of non-OEM aftermarket crash parts in the repair of an insured's motor vehicle, a repair facility or installer may use non-OEM aftermarket crash parts to repair a vehicle only if the insured receives a written estimate of repairs that clearly identifies each non-OEM aftermarket crash part and that contains or has attached to it, in not less than 10-point bold type, the following information:

“This estimate has been prepared based on the use of aftermarket crash parts supplied by a source other than the manufacturer of your motor vehicle. Warranties that apply to these replacement parts are provided by the manufacturer, distributor, or insurer of these parts.”

F. ENDORSEMENTS

1. The Amendment of Policy Provisions—Michigan endorsement [PP 01 80] This must be attached to all personal auto policies issued to Michigan policyholders. A summary of its major provisions follows.

- a. Minimum limits refers to the state-required minimum financial responsibility in Michigan (20/40/10).
- b. The insuring agreement is modified to exclude prejudgment interest.
- c. Prejudgment interest is added to supplementary payments.
- d. A provision is added for additional property damage liability coverage, which pays up to \$1,000.
- e. The cancellation/nonrenewal provisions are revised to comply with Michigan law.

G. WORKERS' COMPENSATION Workers' compensation reimburses employees injured in the course of and arising from their employment. Reimbursement includes loss of wages, hospital and medical expenses, payments for permanent and partial disability, and payments to dependents. Last sickness and burial expenses also are included.

1. Definition

a. Employer [418.115, .151, .155] Under the act, employers who are mandated to provide benefits may purchase a workers' compensation insurance policy or become self-insured by furnishing satisfactory proof of solvency and financial ability to pay benefits or a bond to the Bureau of Workers' Disability Compensation.

1.) Exclusive remedy [418.131, .305] The right to recovery of benefits under the workers' compensation act shall be the employee's exclusive remedy against the employer for a personal injury or occupational disease.

a.) The exception is if the employee is injured as a result of a deliberate act of the employer or if the employee is injured by reason of intentional and willful misconduct.

2.) Employers who are mandated to furnish coverage are:

- private, nonagricultural employers who regularly employ three or more employees at one time;
- private, nonagricultural employers who employ less than three employees, if one of the employees has been regularly employed for at least 35 hours per week for 13 weeks during the preceding 52 weeks;
- all public employers including the state, each county (including county libraries where they are considered separate employers from the county), city, township, incorporated village, and school district, as well as each incorporated public board or public commission authorized by law to hold property and to sue and be sued;
- agricultural employers who employed three or more salaried or hourly paid employees for at least 35 hours per week for at least 13 weeks during the preceding 52 weeks; and
- agricultural employers who employ one or more employees for at least 35 hours per week for five or more consecutive weeks.

3.) In this context, agricultural employer refers not only to those who hire a person who works on a farm but also to employers who hire those who perform services in handling, planting, packaging, freezing, storing, and delivering to storage or market any agricultural or horticultural product.

a.) The services must be performed as part of ordinary farming operations.

b.) It does not apply to services performed in connection with commercial canning or commercial freezing operations or to any product after its delivery to market to be distributed for consumption.

- b. Employee [418.118, .161(1)]** For purposes of the workers' compensation laws, employee means a person working for the state or a county, city, township, village, or school district under any appointment or contract of hire.
- 1.)** However, it does not include persons employed by a contractor who has contracted with the state or a county, city, township, village, or school district, when the contractor is subject to the workers' compensation laws.
 - 2.)** On-call members of a fire department of a county, city, village, or township are considered employees of the county, city, village, or township (regardless of whether the person is paid or unpaid) when they are injured performing their duties as a member of the fire department.
 - 3.)** Police officers, firefighters, or employees of the police or fire departments in municipalities or villages of Michigan may waive the provisions of this workers' compensation law and accept similar benefits from the municipality or village.
 - a.)** They are not entitled to similar benefits from both the municipality or village and this workers' compensation law.
 - b.)** They may collect certain medical expenses under this law if those expenses are not covered by the municipality or village.
 - 4.)** Nationals of foreign countries employed under the Mutual Education and Cultural Exchange Act of 1961 are not considered employees under the workers' compensation law.
 - 5.)** Employees may include aliens, a person employed full time by his spouse at a specific pay rate, partners receiving wages from a partnership, and minors. In the case of illegally employed minors under 18 years of age, double compensation will be awarded unless they used fraudulent permits or falsified age certificates to gain employment.
 - 6.)** Benefits must be provided for household domestic servants other than the spouse, children, or other members of the family residing in the household if the servant worked 35 hours or more per week for at least 13 weeks during the preceding 52 weeks.

2. Excluded employees [418.161(2), (3), .171]

- a.** An endorsement may be attached to the workers' compensation policy excluding coverage for:
 - partners;
 - spouse, child, or parent in the employer's family; and
 - an employee of a limited liability company with no more than 10 members who also is a manager and member and owns a 10% interest in the liability company.

- b.** Requests to exclude the above persons from coverage must be in writing and include the signature of the person requesting exclusion.
 - c.** Under workers' compensation, the employer's insurance company is liable to subcontractors for benefits.
 - d.** Sole proprietors who contract to perform services in the course of an employer's business must be covered by the employer unless they have a separate place of business and hold themselves out to render service to the public.
- 3. Benefits provided [418.301, .315, .321, .345, .351]** Benefits for reasonable medical, surgical, and hospital care and medicines must be furnished to employees injured during the course of or arising from employment for the first six months and thereafter as mandated by the act.
 - a.** The employee may choose his own physician after 28 days.
 - b.** Benefits are also payable for dental services, artificial limbs, eyeglasses, hearing aids, and the like.
 - c.** Medical as well as vocational rehabilitation services must be provided if the employee can no longer perform work for which he has training or experience.
 - 1.)** This will include retraining and job placement.
 - 2.)** Vocational rehabilitation cannot exceed 52 weeks without special authorization.
 - d.** If an employee is injured by reason of his intentional and willful conduct, then he cannot receive compensation under the workers' compensation law.
 - e.** Weekly indemnity benefits in the amount of 80% of the employee's after tax wage must be provided while the employee is completely unable to work.
 - f.** A conclusive presumption of total and permanent disability does not extend beyond 800 weeks from the date of injury; after that time, the question of total and permanent disability must be determined in accordance with facts as they exist at that time.
 - g.** The act provides a maximum weekly rate that is adjusted annually and is established at 90% of the state average weekly wage.
 - h.** Compensation must be paid promptly and directly to the injured worker and will become due and payable on the 14th day after the employer has notice and knowledge of the disability or death.
 - i.** All compensation will be paid weekly.

- j. Work loss benefits are payable on the eighth day of disability, and if the disability lasts longer than two weeks, benefits will be paid retroactively from the first day of the injury.
 - 1.) After six months from the date of the injury, a lump-sum payment may be made as long as all parties are in agreement.
 - 2.) This is subject to the approval of a hearing referee.
 - k. If death results from a compensable injury, the employer must pay the reasonable expenses of the employee's last sickness, funeral, and burial.
 - 1.) The amount to be paid for the funeral and burial cannot exceed the actual cost or \$6,000, whichever is less.
 - l. For purposes of determining compensation to a worker, the following definitions are used.
 - 1.) **Disability** A disability is the limitation of an employee's ability to earn wages in work suitable to his qualifications and training, as a result of a personal injury or work-related disease. The fact that an employee is disabled does not create the presumption of a loss of wages.
 - 2.) **Personal injury** A personal injury is a disease or disability due to causes and conditions characteristic of and unique to the employer's business that arise from employment in that business. Ordinary diseases to which the general public is exposed outside of this employment are not considered personal injuries and therefore are not compensable.
 - m. An employer who knows of disability or death of an employee and who fails to give notice to the insurer within 30 days must pay a penalty of \$50 per day starting on the 31st day. The total penalty may not exceed \$1,500.
- 4. Respiratory and heart diseases as personal injuries [418.405]** In the case of a member of a full paid fire department, personal injury includes respiratory and heart diseases or illnesses which develop during a period while the department member is in the active service of the department and result from the performance of duties for the department.
- 5. Disablement as personal injury, administrative procedure [418.411]** The disablement of an employee resulting from disease or disability will be treated as the happening of a personal injury and the procedure and practice provided in this act shall apply to all proceedings under this chapter, except where specifically otherwise provided herein.
- 6. Right to benefits for occupational disease [418.415]** If an employee is disabled or dies and his disability or death is caused by a disease arising out of the nature of employment, he or his dependents will be entitled to compensation and other benefits for his death or for his disablement.

7. Preexisting disease [418.431]

- a.** No compensation will be payable for an occupational disease if the employee willfully and falsely represents in writing that he has not previously suffered from the disease which is the cause of the disability or death.
- b.** Where an occupational disease is aggravated by any other disease or infirmity, not itself compensable, or where disability or death from any other cause, not itself compensable, is in any way contributed to by an occupational disease, the compensation payable will be a proportion of the compensation that would be payable if the occupational disease were the sole cause of the disability or death.

8. Recovery limited to last employer [418.435] The total compensation due will be recoverable from the employee's last employer.

9. Time limitations on claims [418.441]

- a.** The claim of occupational disease or death resulting from an occupational disease may commence from the date the employee or a deceased employee's dependents had knowledge, or a reasonable belief, or through ordinary diligence could have discovered that the occupational disease or death was work related.
- b.** A claim will not be valid unless within two years after the date the employee or dependents of a deceased employee had knowledge, or a reasonable belief, or through ordinary diligence could have discovered that the occupational disease or death was work related.

10. Computation of death benefits [418.321]

- a.** If death results from the personal injury of an employee, the employer must pay a weekly payment equal to 80% of the employee's after-tax average weekly wage, subject to the maximum and minimum rates of compensation, for a period of 500 weeks from the date of death.
- b.** If at the expiration of the 500-week period any dependent person is less than 21 years of age, a workers' compensation magistrate may order the employer to continue to pay the weekly compensation until the dependent person reaches the age of 21.

11. Presumption of total and permanent disability after second injury [418.521] If an employee has a permanent disability in the form of the loss of a hand, arm, foot, leg, or eye, and subsequently has an injury arising out of and in the course of his employment which results in another permanent disability, at the conclusion of payments made for the second permanent disability he will be conclusively presumed to be totally and permanently disabled and paid compensation for total and permanent disability after subtracting the number of weeks of compensation received by the employee for both such losses. The payment of compensation under this section will be made by the second injury fund and will begin at the conclusion of the payments for the second permanent disability.

12. Termination of insurance Michigan law requires that the Bureau of Workers' Disability Compensation be notified 20 days in advance of the date of cancellation or termination of any workers' compensation policy.

- a. Notice to the bureau must contain the date of cancellation.
- b. The policy must remain in effect 20 days after receipt.

13. Date of disablement [418.425] The date of disablement shall be the date the hearing referee or workers' compensation magistrate may determine on hearing of the claim.

14. Workers' compensation practices

1.) Audit of payroll expenditures [500.2008] Upon written request of an insured, an insurer shall audit the payroll expenditures for the purpose of determining the proper workers' compensation insurance premiums. The audit shall be completed within 120 days of the request. This audit shall be conducted on an annual basis.

2.) In addition to other provisions of law, the following practices as applied to workers' compensation insurance, including workers' compensation coverage provided through a self-insurer's group, are defined as unfair methods of competition and unfair and deceptive acts or practices in the business of insurance:

- As a condition of receiving a dividend for the current or a previous year, requiring an insured to renew or maintain workers' compensation insurance with the insurer beyond the current policy's expiration date or requiring a member to continue participation with a workers' compensation self-insurer group
- As a condition of obtaining workers' compensation insurance, requiring a premium deposit greater than 25% of the total projected annual premium or \$2,500, whichever is greater
- As a condition of obtaining workers' compensation insurance, requiring the purchase of any other form of insurance from the same insurer
- As the result of a payroll audit or examination, requiring the payment of an increased premium increment within 30 days of written notification of the increase in premium

This section does not apply if the insured was guilty of misrepresentation, fraud, or other acts of bad faith.



4

Practice Exam

HOW TO USE: The practice exam tests your retention of the law supplement material. After you have studied the Cram Sheets, Class Notes, and Detailed Text take the following practice exam, as well as the state specific law questions in the InsurancePro™ QBank at www.kaplanfinancial.com.

MICHIGAN LAW SUPPLEMENT PRACTICE EXAM

Student instructions: Following your thorough study of this supplement, take this 50-question sample examination. Grade your performance using the answer key provided. Carefully review the topics pertaining to those questions answered incorrectly.

I. General Insurance

1. An insurer incorporated under the laws of Illinois with its home office in Chicago and NOT licensed in the state of Michigan would be identified as
 - A. a foreign company
 - B. an unauthorized domestic company
 - C. an alien company
 - D. an unauthorized foreign company
2. The Commissioner of Insurance is appointed by the governor for a term of
 - A. 1 year
 - B. 2 years
 - C. 4 years
 - D. 6 years
3. All of the following are examples of insurance transactions EXCEPT
 - A. soliciting applications for insurance
 - B. delivering policies
 - C. licensing of producers
 - D. collecting premiums
4. Enforcement of the Michigan insurance regulations is the responsibility of the
 - A. state legislature
 - B. state attorney general
 - C. Commissioner of Insurance
 - D. governor
5. Which of the following statements regarding a temporary license is CORRECT?
 - A. It allows an individual to transact insurance for a period limited to 3 years.
 - B. It allows a producer to designate a temporary replacement to run his business while he is on an extended vacation.
 - C. A temporary license issued to close the affairs of a deceased producer may be issued for 180 days at the discretion of the Commissioner.
 - D. A temporary license is issued to all resident applicants while they satisfy the prelicensing education requirement.
6. In Michigan, all property and casualty insurers are responsible for
 - A. the acts of their appointed producers
 - B. licensing their producers
 - C. filing a notice of appointment with the Commissioner within 45 days from the contract date of a producer
 - D. notifying the Commissioner within 60 days when a producer is terminated
7. Which of the following statements regarding maintenance of an insurance license is NOT correct?
 - A. To keep licenses in effect, producers must complete 24 hours of approved continuing education every 2 years.
 - B. The Commissioner may revoke a license if a producer was convicted of a felony.
 - C. An insurance license can be revoked by the producer's company for violation of insurance laws.
 - D. In an emergency, the Commissioner may suspend a license to protect the public interest.

8. The purpose of the Michigan Property and Casualty Insurance Guaranty Association is to
 - A. protect persons against failure in the performance of contractual obligations of certain insurance policies
 - B. guarantee the replacement cost value of a home against devaluation
 - C. guarantee the competency of all producers
 - D. reward residents for turning in bad producers or companies for prosecution
9. Which of the following statements regarding controlled business is CORRECT?
 - A. It is a violation of the Unfair Trade Practices Act.
 - B. It is permitted as long as it exceeds 15% of the premiums written in a 12-month period.
 - C. It includes business written on the lives of friends and neighbors.
 - D. It is permitted as long as it does not exceed 15% of the premiums written in a 12-month period.
10. To motivate a buyer to sign an application for insurance, a producer promises a gift equal to one-half of the commission. This is an example of
 - A. rebating
 - B. twisting
 - C. misrepresentation
 - D. coercion
11. Jeffrey, an insurance producer, publishes a written statement that is false and derogatory. It concerns the financial condition of Wesley, another licensed producer in the insurance business, and it is designed to injure Wesley's reputation. This can be considered an act of
 - A. coercion
 - B. twisting
 - C. misrepresentation
 - D. defamation
12. The maximum fine for knowingly violating a cease and desist order is
 - A. \$500 and imprisonment for up to 90 days
 - B. \$2,500 and possible license revocation
 - C. \$5,000 and imprisonment for up to 1 year
 - D. \$10,000 and possible license revocation
13. Which of the following statements regarding the payment of commissions is NOT correct?
 - A. A producer may share commissions with another licensed producer.
 - B. A producer may not share commissions with unlicensed person.
 - C. A producer may not share commissions as a reward for sales leads.
 - D. A producer may not share commissions with a licensed nonresident producer.
14. An applicant for an insurance license must have all of the following qualifications EXCEPT
 - A. a good business reputation
 - B. US citizenship
 - C. honesty and trustworthiness
 - D. good moral character
15. Temporary licenses are issued for how many days?
 - A. 30
 - B. 60
 - C. 90
 - D. 180
16. A person may NOT act as a Michigan insurance producer unless she
 - A. secures employment with a Michigan insurance company
 - B. is licensed by the state of Michigan
 - C. is at least 21 years old
 - D. has lived in Michigan for at least 2 years
17. Which of the following statements describes the authority of a licensed insurance counselor?
 - A. An insurance counselor may not accept a commission on any insurance business he places.
 - B. An insurance counselor provides advice concerning an insurance policy and charges a fee for such advice.
 - C. An insurance counselor issues insurance policies.
 - D. An insurance counselor may not be an attorney-at-law.

18. An applicant who has been denied an insurance license has how many days to request a hearing to protest the denial?
- 21
 - 30
 - 60
 - 90
19. If, after a hearing, the Commissioner believes a producer knowingly violated insurance licensing laws, the Commissioner may
- fine the producer a maximum of \$2,500 for each violation
 - sue the producer on behalf of the public
 - initiate a federal court action
 - cancel any policy purchased by a customer of the producer
20. A producer owes a fiduciary responsibility to all of the following EXCEPT
- the insured, on cancelled policies
 - the insurer, for premiums due
 - the Commissioner, for license fees
 - the prospective purchaser of insurance, when the application is rejected
21. Which of the following statements concerning a terminated appointment is CORRECT?
- It cancels the producer's license with the state.
 - It removes the producer's authority to represent a specific insurer.
 - It cancels the producer's authority to represent any insurer in the state.
 - It is effective after the insurer informs the producer of the termination.
22. From which source does the Michigan Property and Casualty Insurance Guaranty Association obtain its funds?
- Proceeds of lottery ticket sales
 - Assessments of association members
 - State of Michigan General Revenue Fund
 - Insurance producer licensing fees
23. A nonresident producer may be licensed in Michigan if he
- moves to Michigan within 30 days
 - requests a license and pays a fee
 - completes a prelicensing course
 - passes a written exam
24. The Commissioner must examine the books, records, documents, and papers of domestic insurance companies at least once every
- 1 year
 - 3 years
 - 5 years
 - 10 years
25. How many hours of continuing education credit does an agent need to complete every 2 years?
- 20 hours with a minimum of 3 hours in ethics
 - 24 hours with a minimum of 3 hours in ethics
 - 30 hours with no minimum in ethics
 - Michigan has no continuing education requirements for producers
26. All of the following are unfair claims practices EXCEPT
- misrepresenting the amount of coverage available
 - failing to affirm or deny coverage after proof of loss forms are filed
 - attempting to settle a claim for less than the contract provides
 - maintaining a claim-related complaint file
27. The Michigan Property and Casualty Guaranty Association
- is voluntary for domestic insurers
 - protects insureds against insurer insolvencies
 - cannot investigate or defend a claim
 - offers coverage for claims that involve refunds of unearned premium over \$500
28. Rates must be filed with the Commissioner within how many days of use?
- 30
 - 60
 - 90
 - 180

29. The application fee for a license as a resident agent in Michigan is
- \$5
 - \$10
 - \$15
 - \$25
30. It is permissible to write controlled business in Michigan as long as it does not exceed what percentage of total premiums in a 12-month period?
- 10%
 - 15%
 - 25%
 - 50%
31. Which of the following is covered by the Michigan Property and Casualty Guaranty Association?
- A claim submitted to an insurer that has just become insolvent
 - A claim for a loss that occurred after the insurance policy expired
 - A claim that is in excess of the policy limits
 - A claim for under \$10
32. All of the following acts are considered to be insurance fraud EXCEPT
- offering a prospect an inducement to purchase insurance
 - submitting false information on an insurance application with the intent to deceive the insurer
 - submitting a claim for a loss that did not occur
 - concealing a material fact for the purpose of misleading the insurer
33. Property and casualty producers must complete how many hours of continuing education every two years?
- 2
 - 5
 - 10
 - 24
34. All of the following parties are exempt from taking and passing a written examination in order to transact insurance business EXCEPT
- an applicant for limited lines license
 - an applicant for a property and casualty license who holds a ChFC®
 - a nonresident producer whose license is valid
 - an applicant who has been licensed within the previous 12 months
35. If a producer undergoes criminal prosecution, he must notify the Commissioner within how many days?
- 10
 - 20
 - 30
 - 60

II. Property Insurance

36. Which of the following individuals would be eligible for homeowners coverage under the Michigan Essential Act?
- Someone who will not purchase a replacement cost policy for at least 80% of replacement cost
 - Someone who does not occupy the insured dwelling
 - Someone whose policy has been canceled for nonpayment of premium within the last 2 years
 - Someone wishing to insure a dwelling with a \$150,000 replacement cost policy
37. Which of the following statements regarding property insurance is NOT correct?
- Property insurance pays a lump-sum benefit if the insured is disabled.
 - The Commissioner must approve all policy rates and applications.
 - Property insurance can be written for \$7,500.
 - Property insurance can be issued as a repair cost policy.

38. The inspection of a dwelling to determine if an applicant is eligible for home insurance may be based on which of the following?
- Location of the dwelling
 - Number of occupants
 - The marital status of the applicants
 - If the applicant is handicapped
39. In property insurance, an underwriting rule an insurer may establish for home insurance is that if the building has been unoccupied, the insurer can deny coverage. How many days can that be?
- 30 days
 - 45 days
 - 60 days
 - 90 days
40. Which of the following is NOT a reason to refuse to renew a homeowners policy?
- Deterioration of the building for the last 3 years
 - Payment of 3 claims that were not liability claims during the last 3 years totaling more than \$1,000
 - Aging of the building
 - Significant change that occurred during the preceding policy period that poses a physical hazard to the building
42. All of the following are correct statements regarding workers' compensation EXCEPT
- work loss benefits are payable on the eighth day of disability; if the disability lasts longer than 2 weeks, the benefits will be retroactive
 - funeral and burial cost cannot exceed the actual cost or \$6,000, whichever is less
 - vocational rehabilitation cannot exceed 52 weeks without special authorization
 - presumption of total and permanent disability does not extend beyond 900 weeks from the date of injury
43. What are the required limits of liability for auto liability policies?
- \$10,000/\$40,000/\$20,000
 - \$20,000/\$40,000/\$10,000
 - \$25,000/\$50,000/\$25,000
 - \$50,000/\$100,000/\$50,000
44. In the event an insurer cancels or refuses to renew a motor vehicle insurance policy, it must provide how many days' written notice to the insured prior to the effective date of cancellation or refusal to renew?
- 20
 - 30
 - 45
 - 60

III. Casualty Insurance

41. In a workers' compensation policy, Michigan law requires that the Bureau of Workers' Disability Compensation be notified in advance of the date of cancellation of a policy how many days in advance?
- 10 days
 - 20 days
 - 30 days
 - 60 days
45. The Michigan placement facility rates are based on the average of the largest insurance companies. How many insurers help make that rate?
- 5 insurance companies
 - 10 insurance companies
 - 20 insurance companies
 - All insurance companies doing business in the state
46. A person is ineligible for automobile insurance if she
- has been convicted of reckless driving within the last 10 years
 - has a suspended driver's license
 - has accumulated 4 insurance eligibility points in the last 3 years
 - is under age 18

47. Which of the following statements regarding the use of aftermarket crash parts is CORRECT?
- A. A garage has obligation to identify which parts are original and which are aftermarket parts.
 - B. An insurer may require that a body shop provide the insured with a written estimate that identifies all of the aftermarket crash parts to be used in the repair.
 - C. Aftermarket crash parts are considered interchangeable with original parts and their use need not meet any special requirements.
 - D. Estimates using aftermarket crash parts may be oral or written.
48. Which of the following statements is NOT correct regarding automobile insurance?
- A. PPI provides coverage only in Michigan.
 - B. Burial expenses provided under PIP are covered up to \$6,000.
 - C. PIP benefits are overdue if not paid within 30 days.
 - D. UM/UIM are optional coverages.
49. Cancellation of an auto policy is not subject to appeal for how many of the first number of days?
- A. 20
 - B. 35
 - C. 55
 - D. 90
50. Michigan residents who cannot otherwise obtain automobile insurance through ordinary methods can apply to the
- A. Michigan Guaranty Association
 - B. Michigan Automobile Insurance Placement Facility
 - C. Michigan Claims Facility
 - D. Michigan Bureau of Insurance

ANSWERS TO MICHIGAN LAW PRACTICE EXAM

- | | | | | |
|--------------|--------------|--------------|--------------|--------------|
| 1. D | 11. D | 21. B | 31. A | 41. B |
| 2. C | 12. D | 22. B | 32. A | 42. D |
| 3. C | 13. D | 23. B | 33. D | 43. B |
| 4. C | 14. B | 24. C | 34. B | 44. A |
| 5. C | 15. D | 25. B | 35. C | 45. A |
| 6. A | 16. B | 26. D | 36. D | 46. B |
| 7. C | 17. B | 27. B | 37. A | 47. B |
| 8. A | 18. B | 28. A | 38. B | 48. B |
| 9. D | 19. A | 29. C | 39. C | 49. C |
| 10. A | 20. C | 30. B | 40. C | 50. B |