

## **GI201 Flash Cards**

# **Study notes**

Those flash cards might be more informative and longer than those you have seen. This is partly because of the lengthy required reading. Besides, from my personal experience, I did not find flash cards that only contain keywords particularly useful, since you may need to refer back to the texts for more details all the time.

To make the most use of those flash cards, my suggestion is to go through them like another set of study manual in your second or third round of studies, and to highlight any words that you feel important and can help memorize the materials. Then, in your last study round(s), try to focus on those highlighted parts to recall the whole picture. In this way, your memory of those materials would be strengthened more effectively. Remember, do not try to skip any parts since this exam is very much detail-focused.

Again, best luck for your study!

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## Part II

# *Regulatory Environment*



# **The General Insurance Regulatory Environment**

## **Goals**

- Primary goal: protect consumers by regulating underwriting, rating, market conduct, claims handling, and licensing producers for fair treatment and accurate coverage
- Secondary goal: safeguard insurers' financial health via licensing requirements, financial reporting standards, and solvency regulation

## **The General Insurance Regulatory Environment**

### **Authority of Insurance Regulation**

- Regulatory authority: Department (or Office) of Insurance led by a Commissioner
- Multi-level governance:
  - U.S.: McCarran–Ferguson Act returns primary regulation to states; NAIC model acts preserve antitrust exemptions
  - Canada: OSFI enforces solvency; provinces regulate market conduct, rates, underwriting, claims, licensing
- Federal backstops: e.g. Terrorism Risk Insurance Act for certified terrorism losses



## **The General Insurance Regulatory Environment**

# **Regulation for the Social Good**

- Balance private-contract (risk-based pricing, solvency) vs social-product (availability/affordability) perspectives
- Mandatory lines:
  - Automobile liability: universal, fair rates
  - Homeowners: effectively mandatory via mortgage requirements
- Foster competition for innovation and fair rates; prevent anti-competitive practices
- Mechanisms for underserved markets:
  - Residual markets: shared pools for rejected risks
  - Government insurers: state-run coverage with socially determined rates

## **The General Insurance Regulatory Environment**

### **Influences on Insurance Regulation**

- Courts: precedents on DOI actions, policy wording, claims practices
- Industry groups: NAIC and associations draft model acts, lobby, advise
- Consumer organizations: advocate statutes (no-fault auto, anti-redlining)
- Media: amplify issues, shape public opinion, prompt action
- Other government levels: federal limits (Commerce Clause) can override state laws

## **The General Insurance Regulatory Environment**

### **The Department of Insurance**

- Also called DOI or Office of Insurance Regulation; standalone or within broader regulator
- Core functions:
  - Licensing insurers, producers, adjusters
  - Approving policy forms and rate filings
  - Conducting financial exams and market-conduct reviews
  - Enforcing fraud prevention and consumer education
- Examples:
  - UK: PRA within Bank of England
  - China: CBIRC
  - Canada: OSFI
  - Japan: FSA under Minister for Financial Services

## **The General Insurance Regulatory Environment**

# **Insurance Regulation Through Licensing**

- **Insurer licensing:** line-by-line approval; minimum capital/surplus; DOI may impose higher capital or deny
- **Producer licensing:** exams, background checks, continuing education; revocation for fraud or misrepresentation
- **Claims adjuster licensing:** ensures competency; revocation for unethical conduct
- **Actuarial/audit qualifications:** appointed actuaries (e.g. FSA, FCAS) and CPAs certify reserves and financials



## **The General Insurance Regulatory Environment**

# **Regulation of Insurance Policies**

- File all policy forms (ISO or proprietary) for DOI approval or within file-and-use period
- Mandatory provisions: definitions, insuring agreements, exclusions, cancellation/renewal rights
- Readability: font size, plain-language tests, organized layout
- Courts resolve ambiguities in insured's favor; forms revised to avoid adverse interpretation

## **The General Insurance Regulatory Environment**

### **Regulation of Insurance Producers**

- Licensing: exams, background checks, education to protect consumers
- Fiduciary duties: disclose material information; recommend suitable coverage; handle premiums properly
- Prohibited practices:
  - Rebating: inducements of premium/commission
  - Twisting: misleading replacements for commission gain
  - Churning: excessive replacements without benefit
- E&O insurance often required for negligent advice