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# 12-Hour Ethics and California Insurance Code Educational Objectives

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## Overview

Section 1749 (f) of the California Insurance Code states, in part, that in addition to the 40 hours prelicensing education required to qualify for a license as a property broker-agent and casualty broker-agent, the 20 hours prelicensing education required to qualify for a license as a personal lines broker-agent, a life-only agent, or an accident and health agent, or the 20 hours prelicensing education required to qualify for a license as a limited lines automobile insurance agent, the California Department of Insurance (CDI) shall require 12 hours of study on ethics and this code. Where an applicant seeks a license for more than one of the following license types: a property broker-agent and casualty broker-agent license, a personal lines broker-agent license, a life-only license, or an accident and health license, the applicant shall only be required to complete one 12-hour course on ethics and this code.

## Educational Objectives

The educational objectives are derived from the curriculum outline contained in Title 10, Chapter 5, Subchapter 1, Article 6.5, Section 2187.7 of the California Code of Regulations (CCR).

## Ethics and California Insurance Code

The “General” Ethics and California Insurance Code educational objectives that apply to all lines of authority appear at the end of all prelicensing educational objectives. The 12 hours of required Ethics and California Insurance Code education must at a minimum include the material in these objectives.

## The Examination

The California Department of Insurance’s examinations are administered at the following locations beginning at 8:30 a.m. and 1:00 p.m., Monday through Friday except on state holidays:

### **Sacramento:**

California Department of Insurance  
Examination Site  
320 Capitol Mall,  
1st Floor  
Sacramento, California 95814

### **Los Angeles:**

California Department of Insurance  
Examination Site  
300 South Spring Street, North Tower,  
Suite 1000  
Los Angeles, California 90013

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## **San Francisco:**

California Department of Insurance  
Examination Site  
45 Fremont Street  
22nd Floor  
San Francisco, California 94105

Check-in is at 8:10 a.m. for the 8:30 a.m. examination, and check-in is at 12:40 p.m. for the 1:00 p.m. examination.

PSI's test centers are located at the following locations:

Anaheim	El Monte	Sacramento
Atascadero	Fresno	San Diego
Bakersfield	Hayward	San Francisco
Burbank	Redding	Santa Clara
Carson	Riverside	Santa Rosa

The check-in times and driving directions to PSI's test centers are listed on pages 3, 4, and 5 in the [Candidate Information Bulletin](#).

For additional information on license examinations (i.e. online examination scheduling, fingerprint requirements, examination admittance, forms of identification, check your scheduled examination date, check your examination results), please review the following link:

<http://www.insurance.ca.gov/0200-industry/0010-producer-online-services/0200-exam-info/index.cfm>

## **Candidate Information Bulletin**

The Candidate Information Bulletin (CIB) provides detailed information on how to prepare for your license examination, prelicensing education requirements, examination site procedures, sample examination questions, test taking strategies, and driving directions to the California Department of Insurance's examination sites and PSI's test centers that are located throughout California. Please review the following link:

<http://www.insurance.ca.gov/0200-industry/0020-apply-license/0100-indiv-resident/CandidateInformation.cfm>

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The “General” Ethics and California Insurance Code educational objectives that apply to all lines of authority appear below.

- I. General Insurance
  - A. Basic Insurance Concepts and Principles
    - 1. Be able to identify examples of insurance (as defined in Section 22 of the CIC).
    - 2. Be able to identify the definition of insurable events, Section 250 of the CIC.
  
- I. General Insurance
  - B. Contract Law
    - 1. Be able to identify the term “insurance policy,” Section 380 of the CIC.
    - 2. Be able to identify the meaning and effect of each of the following on a contract:
      - a. fraud, Sections 338 and 1871.1 through 1871.4 of the CIC;
      - b. concealment, Sections 330 through 339 of the CIC;
        - i. Be able to identify information that does not need to be communicated in a contract: Section 333 of the CIC;
          - 1) known information
          - 2) information that should be known
          - 3) information which the other party waives
          - 4) information that is not material to the risk
      - c. warranty, Section 440 through 445 and 447 of the CIC;
        - i. know that a representation in an insurance contract qualifies as an implied warranty;
      - d. materiality, Section 334 of the CIC;
        - i. know that the materiality of concealment is the rule used to determine the importance of a misrepresentation;
      - e. representations, Sections 350 through 361 of the CIC;
        - i. know when a representation can be altered or withdrawn, Section 355 of the CIC;

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- ii. know that a representation is false when the facts fail to correspond with its assertions or stipulations, Section 358 of the CIC; and,
  - f. misrepresentation, Sections 780 through 784 of the CIC.
- 3. Be able to identify six required specifications for all insurance policies, Section 381 of the CIC.
  - a. know that the financial rating of the insurer is not required to be specified in the insurance policy, Section 381 of the CIC.
- 4. Be able to identify:
  - a. the meaning of the term rescission; and,
  - b. when an insurer has the right of rescission, Sections 331, 338, 359, and 447 of the CIC.
    - i. know that either intentional or unintentional concealment entitles an injured party to rescission of a contract, Section 331 of the CIC.

## I. General Insurance

### C. The Insurance Marketplace

#### 1. Distribution Systems

- a. Be able to identify a definition of the following marketing systems:
  - i. agency;
  - ii. direct response; and,
  - iii. home service.

## I. General Insurance

### C. The Insurance Marketplace

#### 2. Producers

- a. Be able to identify the Code definition of transact and why the definition is important, Sections 35, 1621 through 1624, 1631, and 1633 of the CIC.
- b. Be able to identify what constitutes transaction of insurance, Section 35 of the CIC:
  - i. solicitation, Section 35(a) of the CIC;
  - ii. negotiation, Section 35(b) of the CIC;
  - iii. execution of a contract of insurance, Section 35(c) of the CIC; and,
  - iv. Transaction of matters subsequent to and arising out of a contract of insurance, Section 35(d) of the CIC.
- c. Be able to identify:
  - i. that the Code prohibits certain actions by unlicensed persons, Section 1631 of the CIC; and,
  - ii. the penalty for such ("a." above) prohibited actions, Section 1633 of the CIC.
- d. Written consent in regards to interstate commerce (Prohibited Persons in Insurance):

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- i. Be able to identify what conduct is prohibited by Title 18 United States Code Section 1033; and,
- ii. Be able to identify what civil and criminal penalties apply, Title 18 United States Code Sections 1033 and 1034.
- e. Be able to identify the differences between the terms agent and broker with respect to their relationship with insurers and with their insureds:
  - i. insurance agent means a person authorized, by and on behalf of an insurer, to transact all classes of insurance other than life insurance, Section 31 of the CIC;
  - ii. insurance broker means a person who, for compensation and on behalf of another person, transacts insurance other than life with, but not on behalf of, an insurer, Section 33 of the CIC; and,
  - iii. know that there is no life broker or health broker; and,
  - iv. know that there are life settlement brokers, Sections 10113.1 through 10113.3 of the CIC.
- f. Be able to identify the Code provisions regarding an accident and health agent acting as an agent for an insurer for which the agent is not specifically appointed, Section 1704.5 of the CIC.
- g. Be able to differentiate between an insurance agent, an insurance broker and an insurance solicitor, Sections 31, 1621, 33, 1623, 34, and 1624 of the CIC.
- h. For Insurance Agent's Errors & Omissions insurance, be able to identify:
  - i. the need for the coverage.
  - ii. the types of coverages available;
  - iii. the types of losses commonly covered/not covered; and,
- i. Be able to identify acts prohibited (unless a surplus lines broker) with regard to nonadmitted insurers, Section 703 of the CIC.
- j. Be able to identify the prohibitions of free insurance, Section 777.1 of the CIC.
- k. Be able to identify the Code requirements for the following:
  - i. an agency name, use of name, Sections 1724.5 and 1729.5 of the CIC; and,
  - ii. change of address, Section 1729 of the CIC;
- l. Be able to identify the rules regarding fictitious names, Section 1724.5 of the CIC.
- m. Be able to identify the rules regarding Internet advertisements, Section 1726 (a) of the CIC.
- n. Be able to identify the licensee's duty for disclosure of the effective date of coverage, Section 1730.5 of the CIC.
- o. Be able to identify the Code specifications regarding producer application investigation, denial of applications, and suspension or revocation of

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- license, Sections 1666, 1668-1669, and 1738 of the CIC.
- p. Be able to identify the importance and the scope of the California Insurance Code regarding:
    - i. the filing of a notice of appointment, Section 1704 through 705 of the CIC;
    - ii. an inactive license, Section 1704 (a) of the CIC; and,
    - iii. cancellation of a license by the licensee in the licensee's possession or in the employer's possession, Section 1708 of the CIC.
  - q. Be able to identify the scope and effect of the Code regarding termination of a (producer's) license, including when producers dissolve a partnership, Sections 1708 through 1712.5 of the CIC.
  - r. Be able to identify and apply:
    - i. the definition of the term "fiduciary;" and,
    - ii. producer fiduciary duties described in the Code, Sections 1733 through 1735 of the CIC.
  - s. Be able to identify the continuing education (CE) requirements for:
    - i. agents, Section 1749.3 of the CIC;
    - ii. an agent writing Long Term Care Insurance, Section 10234.93 of the CIC;
    - iii. agents writing California Partnership coverage must meet California long-term care requirements and training requirements on the California Partnership for Long-Term Care (the total hours of CE required are not increased by Sections 10234.93 (b) or (c)); and,
    - iv. life-only agents or accident and health agents also licensed as a property broker-agent and/or casualty broker-agent must complete 24 hours of continuing education each two-year license renewal period.

The following Educational Objective is derived from the codes of ethics of major industry organizations and is the basis for licensing examination questions.

- t. Be able to identify and apply the meaning of the following:
  - i. place the customer's interest first;
  - ii. know your job - and continue to increase your level of competence;
  - iii. identify the customer's needs and recommend products and services that meet those needs;
  - iv. accurately and truthfully represent products and services;
  - v. use simple language; talk the layman's language when possible;
  - vi. stay in touch with customers and conduct periodic coverage reviews;
  - vii. protect your confidential relationship with your client;
  - viii. keep informed of and obey all insurance laws and regulations;
  - ix. provide exemplary service to your clients; and,

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- x. avoid unfair or inaccurate remarks about the competition.
- u. Be able to identify that the California Insurance Code (CIC) and the California Code of Regulations (CCR) identify many unethical and/or illegal practices, but the CIC and CCR are NOT a complete guide to ethical behavior.
- v. Be able to identify special ethical concerns that may occur when dealing with Senior Citizens regarding pretext interviews, Section 791.03 of the CIC.

## I. General Insurance

### C. The Insurance Marketplace

#### 3. Insurers

- a. Be able to differentiate between:
  - i. admitted and nonadmitted insurers, Sections 24 through 25 of the CIC; and,
  - ii. domestic, foreign, and alien insurers, Sections 26 through 27 of the CIC;
- b. Be able to differentiate between regulation of an admitted insurer and non-admitted insurer, and the potential consequences for consumers, Sections 24, 25, and 1760 through 1780 of the CIC;
- c. Be able to identify the penalty for unlawfully acting as an insurer without a certificate of authority, Section 703 of the CIC.
- d. Be able to identify who may be an insurer, Section 150 of the CIC.
  - i. person, association, organization, partnership, business trust, limited liability company or corporation, Section 19 of the CIC.
- e. Be able to differentiate between Mutual, Stock and Fraternal insurers.
  - i. know that de-mutualization is a process whereby a mutual insurer becomes a stock company, Section 11535 of the CIC.

## I. General Insurance

### C. The Insurance Marketplace

#### 4. Market Regulation - General

- a. Be able to identify:
  - i. the California Insurance Code and how it may be changed (Code);
  - ii. the California Code of Regulations (CCR Title 10, Chapter 5) and how it may be changed (Code); and,
  - iii. how the insurance commissioner is selected and the responsibilities of the position, Sections 12900 and 12921 of the CIC.
- b. Be able to identify the correct application of the Unfair Practices article, including its prohibitions and penalties, Sections 790 through 790.15 of the CIC.

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- c. Be able to identify the privacy protection provisions of:
  - i. The Gramm-Leach-Bliley Act
    - 1) Be able to explain the rules regarding the collection and disclosure of customers' personal financial information by financial institutions;
    - 2) Be able to identify the requirements for all financial institutions to design, implement and maintain safeguards to protect customer information;
  - ii. The California Financial Information Privacy Act (Sections 4050 - 4060 of the California Financial Code (Senate Bill 1, Chapter 241, Statutes of 2004);
  - iii. Insurance Information and Privacy Protection Act regarding practices, prohibitions and penalties, Sections 791 through 791.26 of the CIC;
  - iv. Cal-GLBA/"California Financial Information Privacy Act," Section 4050 California Financial Code;
  - v. Health Insurance Portability and Accountability Act (HIPAA).
- d. Be able to identify the scope and correct application of the conservation proceedings described in the Code, Sections 1011, 1013, and 1016 of the CIC.
- e. Be able to define an insolvent insurer, Section 985 of the CIC:
  - i. the definition of an insolvent insurer includes either:
    - 1) Any impairment of minimum "paid-in capital" or "capital paid in," as defined in Section 36, required in the aggregate of an insurer by the provisions of this code for the class, or classes, of insurance that it transacts anywhere; and,
    - 2) An inability of the insurer to meet its financial obligations when they are due;
  - ii. know that an insurer cannot escape the condition of insolvency by being able to provide for all its liabilities and for reinsurance of all outstanding risks. An insurer must also be possessed of additional assets equivalent to such aggregate "paid-in capital" or "capital paid in" required by this code after making provision for all such liabilities and for such reinsurance, Sections 985 (a) (1 and 2) of the CIC;
  - iii. know the definition of Paid-in Capital, Sections 36 and 985 of the CIC; and,
  - iv. know that it is a misdemeanor to refuse to deliver any books, records, or assets to the Commissioner once a seizure order has been executed in an insolvency proceeding, Section 1013 of the CIC.
- f. Be able to identify:
  - i. common circumstances that would suggest the possibility of fraud;
  - ii. efforts to combat fraud, Sections 1872, 1874.6, 1875.8, 1875.14,

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- iii. 1875.20, and 1877.3(b)(1) of the CIC; and, that if an insured signs a fraudulent claim form, the insured may be guilty of perjury.
    - g. Be able to identify the scope and correct application of the False and Fraudulent Claims article of the Code, Sections 1871, 1871.4 of the CIC.
    - h. Be able to identify the meaning of (as used in the CIC):
      - i. shall and may, Section 16 of the CIC; and,
      - ii. person, Section 19 of the CIC.
    - i. Be able to identify the requirements for notice by mail, Section 38 of the CIC.
- I. General Insurance
  - C. The Insurance Marketplace
    - 5. Fair Claims Settlement Practices Regulations
      - a. Be able to identify a definition of the following:
        - i. Claimant, Title 10, Section 2695.2(c) of the CCR;
        - ii. Notice of Legal Action, Title 10, Section 2695.2(c) of the CCR; and,
        - iii. Proof of Claims, Title 10, Section 2695 2(s) of the CCR;
      - b. Be able to identify File and Record Documentation, Section 2695.3 of the CCR.
      - c. Be able to identify Duties Upon Receipt of Communications, Section 2695.5 of the CCR.
      - d. Be able to identify Standards for Prompt, Fair and Equitable Settlements, Sections 2695.7(a), (b), (c), (g), and (h) of the CCR.