Addendum: for use with Arkansas Personal Lines online course and study guide, version number 27277en, per exam content outline updates effective 3/1/2023.

*Effective March 1, 2023, Arkansas is adopting PSI's national outline for the General Knowledge portion of the exam. The course layout, chapter titles, and the Exam Breakdown will be updated to match the new outline. The following are **content additions** to supplement your existing text unless otherwise indicated. The additions below are referenced under new content domains.*

Introduction

F. Exam Breakdown – *revised exam breakdown*

Arkansas Personal Lines Insurance
105 Total Questions (95 scored, 10 pretest)

CHAPTERS	PERCENTAGE OF EXAM
General Knowledge:	
General Insurance Concepts	8%
Property and Casualty Insurance Basics	27%
Dwelling Policy	7%
Homeowners Policy	14%
Personal Auto Policy	11%
Other Types of Property and Casualty Insurance	7%
State Law:	
Arkansas Statutes, Rules, and Regulations Common to All Lines	16%
Arkansas Statutes, Rules, and Regulations Pertinent to Personal Lines Only	10%

General Insurance Concepts

Risk

1. Elements of Insurable Risks

Not all risks are insurable. As noted earlier, insurers will insure only **pure risks,** or those that involve only the chance of loss with no chance of gain. Furthermore, even pure risks must have certain characteristics in order to be insurable. Insurable risks involve the following characteristics:

- **Due to chance —** A loss that is outside the insured's control.
- **Definite and measurable —** A loss that is specific as to the cause, time, place and amount. An insurer must be able to determine how much the benefit will be and when it becomes payable.
- **Statistically predictable —** Insurers must be able to estimate the average frequency and severity of future losses and set appropriate premium rates. (In life and health insurance, the use of mortality tables and morbidity tables allows the insurer to project losses based on statistics.)
- **Not catastrophic —** Insurers need to be reasonably certain their losses will not exceed specific limits. That is why insurance policies usually exclude coverage for loss caused by war or nuclear events: There is no statistical data that allows for the development of rates that would be necessary to cover losses from events of this nature.
- **Randomly selected and large loss exposure —** There must be a sufficiently large pool of the insured that represents a random selection of risks in terms of age, gender, occupation, health and economic status, and geographic location.

2. Methods of Handling Risk

Avoidance

One of the methods of dealing with risk is **avoidance**, which means eliminating exposure to a loss. *For example,* if a person wanted to avoid the risk of being killed in an airplane crash, he/she might choose never to fly in an airplane. Risk avoidance is effective, but seldom practical.

Retention

Risk **retention** is the planned assumption of risk by an insured through the use of deductibles, co-payments, or self-insurance. It is also known as self-insurance when the insured accepts the responsibility for the loss before the insurance company pays. The purpose of retention is

- To reduce expenses and improve cash flow;
- To increase control of claim reserving and claims settlements; and
- To fund for losses that cannot be insured.

Sharing

Sharing is a method of dealing with risk for a group of individual persons or businesses with the same or similar exposure to loss to share the losses that occur within that group. A reciprocal insurance exchange is a formal risk-sharing arrangement.

Reduction

Since we usually cannot avoid risk entirely, we often attempt to lessen the possibility or severity of a loss. **Reduction** would include actions such as installing smoke detectors in our homes, having an annual physical to detect health problems early, or perhaps making a change in our lifestyles.

Transfer

The most effective way to handle risk is to **transfer** it so that the loss is borne by another party. Insurance is the most common method of transferring risk from an individual or group to an insurance company. Though the purchasing of insurance will not eliminate the risk of death or illness, it relieves the insured of the financial losses these risks bring.

Authority and Powers of Producers

An agent/producer is an individual licensed to sell, solicit or negotiate insurance contracts on behalf of the **principal (insurer).** The **law of agency** defines the relationship between the principal and the agent/producer: the acts of the agent/producer within the scope of authority are deemed to be the acts of the insurer.

In this relationship, it is a given that

- An agent represents the insurer, not the insured;
- Any knowledge of the agent is presumed to be knowledge of the insurer;
- If the agent is working within the conditions of his/her contract, the insurer is fully responsible; and
- When the insured submits payment to the agent, it is the same as submitting a payment to the insurer.

The agent is responsible for accurately completing applications for insurance, submitting the application to the insurer for underwriting, and delivering the policy to the policyowner.

The agency contract details the authority an agent has within his/her company. Contractually, only those actions that the agent is authorized to perform can bind the principal (insurer). In reality, an agent's authority is much broader. There are 3 types of agent authority: express, implied, and apparent.

Express authority is the authority a principal intends to grant to an agent by means of the agent’s contract. It is the authority that is written in the contract.

Implied authority is authority that is **not expressed or written into the contract, but which the agent is assumed to have in order to transact the business** of insurance for the principal. Implied authority is incidental to and derives from express authority since not every single detail of an agent’s authority can be spelled out in the written contract.

Apparent authority (also known as *perceived* authority) is the appearance or the assumption of authority based on the actions, words, or deeds of the principal or because of circumstances the principal created. *For example,* if an agent uses insurer's stationery when soliciting coverage, an applicant may believe that the agent is authorized to transact insurance on behalf of the insurer.

Legal Interpretations Affecting Contracts

1. Reasonable Expectations

It is not always practical or necessary to state every direct and indirect provision or coverage offered by an insurance policy. If an agent implies through advertising, sales literature or statements that these provisions exist, an insured could **reasonably expect coverage**.

2. Indemnity

Indemnity (sometimes referred to as **reimbursement**) is a provision in an insurance policy that states that in the event of loss, an insured or a beneficiary is permitted to collect only to the extent of the financial loss, and is not allowed to gain financially because of the existence of an insurance contract. The purpose of insurance is to restore, but not let an insured or a beneficiary profit from the loss.

3. Utmost Good Faith

The principle of **utmost good faith** implies that there will be no fraud, misrepresentation or concealment between the parties. As it pertains to insurance policies, both the insurer and insured must be able to rely on the other for relevant information. The insured is expected to provide accurate information on the application for insurance, and the insurer must clearly and truthfully describe policy features and benefits, and must not conceal or mislead the insured.

4. Fraud

Fraud is the intentional misrepresentation or intentional concealment of a material fact used to induce another party to make or refrain from making a contract, or to deceive or cheat a party. Fraud is grounds for voiding an insurance contract.

Federal Laws and Regulations

Prohibited Persons in Insurance Waiver (18 USC Sections 1033 and 1034)

It is considered **unlawful insurance fraud** for any person engaged in the business of insurance to willfully, and with the intent to deceive, make any oral or written statement that are either false or omit material facts. This includes information and statements made on an application for insurance, renewal of a policy, claims for payment or benefits, premiums paid, and financial condition of an insurer.

Anyone engaged in the business of insurance whose activities affect interstate commerce, and who knowingly makes false material statements may be fined, imprisoned for up to **10 years** or both. If the activity jeopardized the security of the accompanied insurer, the punishment can be up to **15 years**.

Anyone acting as an officer, director, agent or other insurance employee who is convicted of embezzling funds faces the aforementioned fines and imprisonment. However, if the embezzlement was in an amount less than **$5,000**, prison time may be reduced to 1 year.

Federal law makes it illegal for any individual convicted of a crime involving dishonesty, breach of trust or a violation of the **Violent Crime Control and Law Enforcement Act of 1994** to work in the business of insurance affecting interstate commerce without receiving a **letter of written consent** from an insurance regulatory official — a **1033 waiver**. The consent of the official must specify that it is granted for the purpose of 18 U.S.C. 1033. Anyone convicted of a felony involving dishonesty or breach of trust, who also engages in the business of insurance, will be fined, imprisoned for up to 5 years or both.

Section 1034, Civil Penalties and Injunctions for Violations of Section 1033, states that the Attorney General may bring a **civil action** in the appropriate U.S. district court against any person who engages in conduct that is in violation of Section 1033 of not more than **$50,000** for each violation, or the amount of compensation the person received as a result of the prohibited conduct, whichever is greater.

Property and Casualty Insurance Basics

Principles and Concepts

1. Torts

A **tort** is a wrongful act or the violation of someone's rights that leads to legal liability. **Tortfeasor** is a person who commits a tort. Torts are classified as intentional or unintentional (referred to as negligence).

An **intentional tort** is any deliberate act that causes harm to another person regardless of whether the offending party intended to injure the aggrieved party. For purpose of this definition, breach of contract is not considered an intentional tort.

An **unintentional tort** is the result of acting without proper care. This is generally referred to as negligence.

Dwelling Policy

1. Personal Liability Supplement

Unlike the homeowners policy, the dwelling policy does not include any coverage for personal liability. The **personal liability supplement** can be added to the dwelling policy or written as a separate policy. Endorsements can be added for comprehensive personal liability (on- or off-premises liability), or premises-only liability if the dwelling is rented to others. The coverage form includes 3 coverages:

- Coverage L - Personal Liability;
- Coverage M - Medical Payments to Others; and
- Additional Coverages.

The additional coverages include

- Claims expenses;
- First aid to others; and
- Damage to property of others.

Liability insurance does not include a list of perils for Coverage L or Coverage M. Instead, coverage is subject to the definitions, exclusions and conditions present in the policy.

Homeowners Policy

Selected Endorsements

There are numerous endorsements available under the homeowners policy program that broaden the coverage provided under the basic policy forms. The following are optional endorsements available on the homeowners policy. (Some also are available for the dwelling program.)

1. Business Pursuits

Business pursuits is an endorsement that allows an insured to extend the Section II liability coverage to certain business pursuits that occur away from the premises. It covers the activities of the insured, but will not cover the liability of a business owned by an insured.

2. Earthquake

Earth movement (earthquake) is excluded in all property policies, but usually can be purchased separately for an additional premium. The coverage can be purchased to cover the dwelling, other structures, and/or personal property. Rates generally are determined by the type of construction that determines the dwelling's vulnerability to earthquake losses. Frame buildings are less susceptible to severe damage than masonry veneer buildings. Therefore, they have lower rates for this coverage.

Earthquake coverage provided by endorsement in a homeowners form considers one or more earthquake shocks occurring within a **72-hour** period as a single earthquake.

The **deductible** under earthquake coverage is stated as a percentage of loss; however, it cannot be less than a specified minimum dollar amount (*for example*, $500 in HO '11 ISO form). The deductible applies separately to buildings, other structures, personal property, and loss of use.

Masonry veneer structures are not covered by an endorsement issued for a frame dwelling. A separate endorsement is available for this type of construction.

3. Home Day Care

If the insured operates a home day care business out of the insured residence, the **home day care coverage endorsement** may be attached to the policy to cover the liability exposure associated with the business. Coverage excludes loss or damage that results from sexual molestation, corporal punishment, physical or mental abuse, or draft and saddle animals – including vehicles used with such animals, motor vehicles, aircraft, or watercraft. The premium is based on the number of children kept in the home.

3. Personal Injury

Personal injury coverage, including injuries that result from false arrest, libel, slander, defamation of character, and invasion of privacy, may be added by endorsement.

4. Personal Property Replacement Cost

Personal property replacement cost endorsement changes the actual cash value settlement on personal property, household appliances, carpeting, awnings and outdoor equipment to a replacement cost basis. Certain types of property will not benefit from this coverage, such as fine arts, antiques, memorabilia, articles that are not in good working order, and items that are stored and have become outdated or obsolete.

There is no requirement that the personal property be insured to 80% of replacement cost at the time of loss. However, some insurers require that the amount of Coverage C be increased to 70% of Coverage A amount when this endorsement is purchased.

5. Watercraft

Watercraft endorsement provides liability protection for bodily injury or property damage caused by the ownership or use of watercraft (excluding when used to carry persons for a fee or when rented to others).

6. Ordinance or Law

The **ordinance or law endorsement** of a homeowners policy provides for losses for damage to covered property or the building containing covered property to be settled on the basis of any ordinance or law that regulates construction, repair, or demolition of this property. An additional premium will be charged for this endorsement.

7. Scheduled Personal Property

If the insured requires higher limits for certain types of property, the **scheduled personal property endorsement** may be used to schedule individually described items or classes of items on a blanket basis. This endorsement typically provides open peril or special form coverage on listed items. The endorsement provides for the scheduling of 9 different classes of property:

- Jewelry;
- Furs;
- Cameras;
- Musical instruments;
- Silverware;
- Golfer's equipment;
- Fine arts (including porcelains and glassware);
- Postage stamps; and
- Rare and current coins.

Newly acquired jewelry, furs, cameras, and musical instruments are covered up to the lesser of the following limits:

- 25% of the amount of insurance for that class of property; or
- $10,000.

The new property must be **reported within 30 days of acquisition**, and the insured may be required to pay the additional premium from that date. For coverage to apply to fine arts, the report of acquisition must be provided **within 90 days**.

Insured perils: this endorsement insures against direct physical loss to property caused by any of the following perils:

- Wear and tear;
- Insects or vermin;
- War;
- Nuclear hazard;
- *If fine arts are covered* – breakage caused by fire or lightning, windstorm, earthquake or flood, explosions, and malicious damage or theft; or
- *If postage stamps are covered* – fading, creasing, denting or scratching, transfer of colors, and disappearance.

The following are additional benefits and features of the scheduled personal property endorsement:

- The Coverage C limits no longer apply for the property scheduled on this endorsement;
- Insured locations: eligible property is covered worldwide;
- Fine arts and antiques can be covered on other than ACV basis;
- The special limits of liability no longer apply to items or classes of property scheduled; and
- No deductible will apply to a covered property loss.

Personal Auto Policy

1. Definitions

Personal injury protection (PIP), also called "**no-fault insurance**", covers medical expenses and related costs resulting from an accident, regardless of who caused it. PIP covers both insured policyholders and passengers.

2. Selected Endorsements

Optional endorsements can be used to modify the personal auto policy to fit the needs of individual insureds. Some of the more commonly used endorsements are discussed next.

Towing and Labor Costs

The **towing and labor costs** endorsement provides a basic **limit of $25** for towing and labor costs incurred at the place a vehicle is disabled. Higher limits are available for an additional premium. Coverage applies to a covered auto or a nonowned auto, but only applies to costs incurred at the place of disablement.

Extended Nonowned Coverage for Named Individual

The **extended nonowned coverage for named individual** endorsement can broaden the liability only, or liability and medical payments coverage provided in the policy for individuals specifically named on the endorsement. It provides coverage for nonowned autos that are available for the regular use of the insured, the use of covered vehicles to carry persons or property for a fee, or use of covered vehicles in other businesses (excluding the automobile business).

Joint Ownership Coverage

The **joint ownership coverage** endorsement is used when individuals own a vehicle together (insurable interest), but do not meet the traditional definition of an insured in the personal auto policy. Coverage applies to individuals, other than spouses, who reside in the same household and nonresident relatives. The vehicle owned must be listed in the endorsement, and coverage will not extend to any vehicle owned by any party that is not listed or included in the covered auto definition.

Arkansas Statutes, Rules, and Regulations Pertinent to Personal Lines Only

E. Automobile Insurance — *topics below expanded as follows*:

3. Uninsured and Underinsured Motorist

An insured may reject uninsured motorist coverage in writing. If rejected, an insurer is not required to offer coverage again, unless a new application is submitted in connection with any renewal, reinstatement, or replacement transaction.

An insurer issuing uninsured motorist coverage must provide an insured with the opportunity to include uninsured motorist property damage coverage to their policy. Property damage coverage is applicable to losses in excess of $200. An insured does not need to meet the $200 deductible if the vehicle is insured by the same insurer for both collision and uninsured motorist property damage coverage and the operator of the other vehicle is solely at fault.

4. Cancellation and Nonrenewal

An insurer may nonrenew an automobile policy by providing an insured with a **30-day** notice of nonrenewal. If an insurer does not provide grounds for nonrenewal in the notice, the insurer must provide it within **15 days** of a request by the insured.

When offering the renewal of an auto policy, an insurer must provide an insured with a notice, detailing any potential changes to the policy premium, deductible, or provisions.