

Life insurance law: The basis for your success

What does the typical financial planner or insurance agent know about the insurance contract? Is an insurance policy in force in this case scenario? Is it the new or the old policy? If the first policy were cancelled due to non-payment of the premium, could the estranged wife pay the premium during the grace period and put the policy back in force?

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How much do you know about life insurance law? Try this case scenario:

Alberto Monteverdi recently met an insurance agent, Quanti Chung, at his golf club. Trying to be friendly, he decided he would have Quanti review his insurance coverage. Quanti had been a property and casualty agent for 10 years and his agency just added life products in the last six months.

When they met, Quanti showed Alberto that due to changes in Alberto's life, he needed different life insurance coverage. Alberto understood that he needed to make some changes, but he felt he owed it to his past insurance agent to at least review the proposal with him. Attached to the papers was a handwritten note from Quanti stating, "Just sign the policy and attach the first premium to put this policy in force."

Alberto took the information with him and promised to get back to Quanti within the week. After a heated phone conversation with his estranged wife, that afternoon Alberto decided that he should go ahead with the changes. He called his current insurance agent and left a voice message canceling his life insurance policy as of noon that day. Alberto was distracted by an office problem and did not get around to calling Quanti back to put the new policy in effect, but he did sign the papers and wrote a check for the first premium, which he left on his desk when he left for the evening. The new policy named his current girlfriend as the beneficiary. On the way home, Alberto is killed in an auto accident.

What does the typical financial planner or insurance agent know about the insurance contract? Is an insurance policy in force for this case scenario? If so, is it the new or the old policy? If the first policy were cancelled due to non-payment of the premium, could the estranged wife pay the premium during the grace period and put the policy back in force?

Does writing the check and signing the papers constitute a policy? Is there any liability for the note attached to the paperwork? What if Alberto had a heart condition and the new company would not have accepted him if they had performed a physical? Is there a contract?

For those who have studied HS 324, they have the answers to all of the above questions. They would know that the cancellation of a life insurance policy requires a surrender of the policy, so Alberto's original policy is still in force. The new policy is not yet effective because Alberto had not even submitted his application.

Life insurance policies are different from property insurance as far as the time at which they become effective. There are no binding oral agreements in life insurance. Quanti confused property and casualty submissions with life insurance submissions. He could be open to a lawsuit brought by girlfriend because he told Alberto he is covered simply by writing the check for the premium and signing the application (not a policy).

From other CLU courses, readers might question whether the first policy was in force or not since it is not clear whether this is a term policy or one with cash value that would continue. Most likely, the wife would not have to pay the premium to keep the policy in force.

As noted above, there is no new policy — Alberto had not submitted his application to underwriting and had not fulfilled any required testing for acceptance. There could be potential for an errors and omission case due to the note attached to the policy. Today, most companies warn against writing any type of note with company papers. What is in print is what the company will stand behind.

How many advisors have experienced such scenarios and knew the answers to all the questions? Who knew all the ins and outs of the life insurance contract? This is basic knowledge that every financial advisor who provides advice about or sells life insurance should have. It is very interesting, but not exciting. But if any part of the insuring process or contract is wrong, it could get very exciting — though not in a pleasant way.

Although agents are licensed, they likely know very little about what is in the HS 324 textbook, and of those things they do know, their knowledge will be expanded threefold. This course gives the student the confidence that he or she can interpret and explain life insurance contract provisions accurately and in depth. It takes a student's knowledge of the life insurance policy and all the surrounding legal concepts to a new level.

This course examines the legal rights and obligations of the policy owner and the insurance company. It covers in great depth the legal aspects of life insurance, especially policy provisions. For example, if an insured cuts himself shaving, develops an infection and later dies, would an accidental death benefit be paid? He cut himself unintentionally and died as a result of the infection of the accidental cut. The text discusses cases such as this to give the student a far better understanding of the issues involved in what are deceptively straightforward policy provisions. Is a policy loan really a loan?

If competence is a key component to developing trust and credibility with a client and a foundation to developing a client relationship, knowing this material will greatly add to that objective. What kind of authority did Quanti Chung, the life insurance agent have? What difference will it make whether Chung had express authority, implied authority, or apparent authority? What is waiver and estoppel? Learning this content will give advisors the power to talk as a subject matter expert, an authority on the life insurance contract. Because of this high level of knowledge, many advisors are requested to act as expert witnesses in various cases. An understanding of the terminology and the workings of the insurance policy are essential in these situations.

Ethics is an important issue in the financial services business. One component of ethical behavior is acting in a professional and competent manner. Ethics has to start with how well one understands the subject matter, and how well one can communicate it to prospective insureds. This course is one good place to start.

Not having any details to the contrary, we believe Quanti reviewed Alberto's situation and came to the conclusion that Alberto really needed to change his policy and it was in Alberto's best interest to make the recommended change.

Certainly in sales, the concepts of this course can be applied in questioning a prospect about current life insurance coverage. Asking specific questions about the nature of the individual's insurance contracts may be sufficient to whet the prospect's curiosity and give an advisor the opportunity to review the current coverage. This opportunity, coupled with the credibility this knowledge develops in the prospect, is what we are all looking for — more qualified appointments. Quanti seemed to have learned this lesson — he had asked specific questions to learn that Alberto needed to revise his insurance. He had located a qualified prospect, but he really needed to complete HS 324 to know the “ins and outs” of the life insurance policy. He still has a great amount to learn, and HS 324 is the place to start.