Understanding the Insurance Industry

life, health, travel, risk investment, future, care fire, home, auto, accident casualty, security, damage corporate, business, value protection, medical, saving safety, property, solution control, assistance, success + insurance
The insurance industry plays an important role in society. The majority of American households own some form of life insurance. In 2011, the average face amount of a newly purchased individual life insurance policy was $162,000. In that same year, purchases of life insurance, both individual and group, equaled $2.9 trillion. Most new life insurance policies are purchased by individuals from life insurance agents. According to the American Council of Life Insurers 2012 Life Insurers Fact Book, life insurance in force in the United States at the end of 2011 totaled $19.2 trillion, a 4% increase over 2010. In addition, the underwriting of annuities is receiving ever-increasing emphasis by many insurance companies. Measured by 2011 premium receipts, annuities led the way, accounting for 53% of the total, followed by accident and health insurance with 27%, and life insurance with 20%.

**Insurance Products and the Consumers**

Until the late 1970s, life insurance was a two-product world. Determining which product a consumer needed was easy: whole life was for lifelong needs, while term was for needs of limited duration. Then everything changed. During the late 1970s and early 1980s, in response to an increasingly sophisticated consumer base, an inflationary economy, and the perception that life insurance was out of step, the industry created new products with greater market appeal in response to the criticisms leveled against the two-product life insurance world. An impressive lineup of new and innovative insurance products emerged and forever changed the marketing and sales of life insurance.

Consumers no longer need to settle for an either/or choice for life insurance protection. Universal life, variable life, variable-universal life, and numerous variations of whole life and term life now provide great flexibility. At the same time, these options complicate the decision to be made by the consumer, whose timeline or ability to pay a premium no longer determines the protection needed. Today’s products demand more input from the consumer and more guidance from the agent in selecting the right plan of protection and making sure that plan is suitable. In fact, suitability has emerged as perhaps the most significant aspect of the agent’s market conduct.
Licensure

Insurance sales agents must obtain a license in the states where they plan to sell insurance. Separate licenses are required for agents to sell life and health insurance and property and casualty insurance. In most states, licenses are issued only to applicants who complete specified prelicensing courses and who pass state examinations covering insurance fundamentals and state insurance laws. The insurance industry is increasingly moving toward uniform state licensing standards and reciprocal licensing, allowing agents who earn a license in one state to become licensed in other states more easily. Most state licensing authorities also have mandatory continuing education requirements focusing on insurance laws, consumer protection, ethics, and the technical details of various insurance policies. As the demand for financial products and financial planning increases, many insurance agents, especially those involved in life insurance, are choosing to gain the proper licensing and certification to sell securities and other financial products. Doing so, however, requires substantial study and passing an additional examination—either the Series 6 or Series 7 licensing exam—both of which are administered by the Financial Industry Regulatory Authority (FINRA). The Series 6 exam is for individuals who wish to sell only mutual funds and variable annuities, whereas the Series 7 exam is the main FINRA series license that qualifies agents as general securities sales representatives.
This volume is the work of Kaplan’s staff of insurance experts and instructors who have diverse and hands-on experience in the insurance industry. Kaplan Financial Education has been producing reference manuals, training, and study materials for the insurance industry for more than 30 years.

888.824.8742 | www.kfeducation.com