

# Test Alert!

North Carolina

Property and Casualty Insurance

License Exam Manual

5/22/06

# P&C

The information included in this release, in addition to your other Kaplan Financial materials, is designed to assist you in preparing for concepts that your exam may include. We urge you to read it carefully and take time to review the sample questions and rationales.

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# Part I

## Changes Since the Previous Edition

The information below has been updated since the first edition of the North Carolina Property and Casualty Insurance License Exam Manual.

### FLOOD INSURANCE

#### Flood maps and zone determinations

Flood insurance rate maps (FIRMs) show differing areas of flood risk, ranging from low-risk to higher-risk areas called Special Flood Hazard Areas (SFHAs). FEMA defines an SFHA as “an area of land that would be inundated by a flood having a 1% chance of occurring in any given year” (also known as the base flood or 100-year flood).

The purpose of a FIRM is to:

- provide easy-to-access and accurate data to property owners making siting decisions;
- alert property owners of the need for flood insurance where risks exist; and
- improve stormwater management, transportation, and spill response.

Generally FIRMs are created by FEMA, but North Carolina has partnered with FEMA as a Cooperating Technical State (CTS) to update and digitize the FIRMs for the entire state. The project is due to be completed in 2006.

FLOOD HAZARD DESIGNATIONS	
<b>Special Flood Hazard Areas</b>	
Zone A	No base flood elevations determined.
Zone AE	Base flood elevations determined.
Zone AH	Flood depths of 1 to 3 feet (usually areas of ponding); base flood elevations determined.
Zone AO	Flood depths of 1 to 3 feet (usually sheet flow on sloping terrain); average depths determined. For areas of alluvial fan flooding, velocities also determined.
Zone A99	To be protected from 100-year flood by federal flood protection system under construction; no base flood elevations determined.
<b>Special Flood Hazard Areas in Coastal Areas</b>	
Zone V	Coastal flood with velocity hazard (wave action); no base flood elevations determined.
Zone VE	Coastal flood with velocity hazard (wave action); base flood elevations determined.
Zone X	Areas of 500-year flood; areas of 100-year flood with average depths less than 1 foot or with drainage areas less than 1 square mile and areas protected by levees from 100-year flood.
Zone D	Areas in which flood hazards are undetermined.

### Community Rating System (CRS)

The National Flood Insurance Program's Community Rating System is a voluntary incentive program that provides discounted rates for responsible community floodplain management.

CRS rates are discounted in increments of 5%. Community classes are based on 18 creditable activities organized under four categories:

- Public information
- Mapping and regulations
- Flood damage reduction
- Flood preparedness

### Claims handling

Proof of loss forms must be fully completed, signed, and delivered to the insurer within 60 days after the loss occurs. In some severe floods, FEMA may authorize proof of loss extensions for everyone in the affected area.

When additional damage is discovered after the 60-day limit has passed, a supplemental claim may be filed within 60 days after the loss. Claims filed after 60 days are decided on a case-by-case basis.

### Flood Insurance Reform Act of 2004

The Flood Insurance Reform Act of 2004 extended the NFIP through September 30, 2008. It also established a pilot program providing assistance for flood damage to "severe repetitive loss properties" that have been flooded multiple times, and are thus a financial drain on the NFIP. In the long term, the program is structured to buy out severe repetitive loss properties and therefore mitigate their draining impact on federal and state resources.

## BUILDERS RISK COMPLETED VALUE VERSUS REPORTING FORM

### Completed value form

With the completed value form, the amount of coverage is determined according to the anticipated completed value of the building under construction.

The insurer pays the actual cash value of the loss; however, it will not pay a greater share of any loss than the proportion that the limit of insurance bears to the value of the building on the date of completion.

For example: the value of a building on its date of completion is \$200,000. The limit of insurance carried is \$100,000 with a \$500 deductible. The amount of loss is \$80,000. The company would pay \$39,500.

$$100,000 \div 200,000 = .50$$

$$\$80,000 \times .50 = \$40,000$$

$$\$40,000 - \$500 = \$39,500$$

## Reporting form

The builders risk reporting form permits the insured to carry a smaller amount of insurance up front. When this form is attached to the builders risk coverage form, the insured purchases an amount of insurance that gradually increases with the value of the building under construction.

This form requires a monthly report of value to the insurer.

The insurance company will not pay more for any loss than the proportion of the last reported value to the actual cash value of the covered property on the effective date of the last report.

## NORTH CAROLINA LAW

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### UNAUTHORIZED INSURERS

#### Transaction of business without a license [58-28-5]

It is unlawful for any company to transact insurance business in North Carolina without a license. This section does not apply to the following transactions:

- The procuring of a policy of insurance where the applicant is unable to procure coverage in the open market with admitted companies and is otherwise in compliance with laws governing surplus lines insurance
- Contracts of reinsurance; but not including assumption reinsurance transactions
- Transactions involving a policy lawfully solicited, written, delivered and covering risks outside of North Carolina
- Transactions involving group life insurance, group annuities, group, blanket, or franchise accident and health insurance where the master policy for the insurance was lawfully issued and delivered in a state in which the company was authorized to transact business
- Transactions involving policies of insurance issued before July 1, 1967
- The procuring of contracts of insurance issued to a public utility procuring insurance against radioactive contamination and other risks of direct physical loss at a nuclear electric generating plant
- Ocean marine insurance
- Aviation coverages

#### Acts constituting transaction of business [58-28-10]

The following acts constitute transacting insurance business in North Carolina:

- Maintaining an office where acts in furtherance of an insurance business are conducted, including the execution of contracts of insurance
- Maintaining files or records of contracts of insurance
- Receiving payments of premiums for contracts of insurance

The following acts, when conducted by an unauthorized insurer, constitute transacting insurance business in North Carolina:

- Issuing or delivery of contracts of insurance
- Soliciting applications for contracts of insurance
- Collecting premiums, membership fees, assessments, or other considerations
- Transacting any matters arising out of the execution of insurance contracts

The penalty for violation of these provisions is between \$1,000 and \$5,000 for each offense.

### **Cease and desist orders and judicial review [58-28-20]**

Whenever the Commissioner has reasonable grounds to believe that any person is violating state law governing unauthorized insurers he may, after notice and opportunity for hearing, issue an order to cease and desist.

Any person ordered to cease and desist may seek judicial review of that order.

## **WORKERS' COMPENSATION**

### **Injuries covered**

An injury is covered by workers' compensation in North Carolina if it is incurred out of and in the course of employment. Three kinds of injuries are covered:

- Accident— an interruption of normal work routine, such as a slip or fall
- Specific traumatic incident— injuries that occur during normal work activities, such as a back injury incurred while lifting
- Occupational disease—disability due to continuous exposure to hazardous employment conditions, such as asbestos or lead

### **Giving notice**

An injured employee must give notice within 30 days of the injury or, in the case of occupational disease (excepting asbestosis, silicosis, and lead poisoning), within 30 days of learning of the illness. If the injured employee does not file notice within two years of the injury or diagnosis of occupational disease, he forfeits his right to benefits.

## **COVERED BENEFITS AND WAGE REPLACEMENT**

### **Temporary total disability**

For temporary disability that is completely disabling (preventing the employee from returning to work), the benefit is equal to two-thirds of the employee's average weekly wage up to the maximum compensation rate, which varies according to type of injury (see table).

### **Temporary partial disability**

If the temporary disability prevents the employee from receiving his full wage after returning to work, the benefit is two-thirds of the difference of the pre-

injury and post-injury wage. Benefits expire after 300 weeks, and any period where temporary total disability benefits been paid will be counted toward this total.

### Permanent partial disability

If the injured employee suffers permanent impairment to a limb or organ, the benefit is two-thirds of the employee's average weekly wage, for a duration determined by the impaired limb or organ (see table). If the loss of use of the limb or organ is not total, the benefit is proportionate to the percentage of disability, as determined by a physician. For example, a 20% loss in hearing would result in a benefit of 20% of two-thirds of the employee's average weekly wage.

Limb or Organ Disabled	Maximum Duration of Benefit
Thumb	75 weeks
First or index finger	45 weeks
Second or middle finger	40 weeks
Third or ring finger	25 weeks
Fourth or little finger	20 weeks
Great toe	35 weeks
Any other toe	10 weeks
Hand	200 weeks
Arm	240 weeks
Foot	144 weeks
Leg	200 weeks
Eye	120 weeks
Hearing (one ear)	70 weeks
Hearing (both ears)	150 weeks
Back	300 weeks

### Permanent total disability

Loss of use of both hands, both arms, both eyes, both legs, or both feet constitutes permanent total disability, entitling the injured employee to weekly benefits for the course of his lifetime.

### Disfigurement and damage to other organs

Additional benefits may be payable for:

- loss of or permanent injury to an important organ of the body (up to \$20,000); and
- serious bodily disfigurement, scarring or loss of teeth (up to \$10,000).

### Compensation rates

Weekly compensation rates may not be less than \$30 or greater than \$110 of the average weekly wage for North Carolina (\$704 in 2005).

**Waiting period**

No compensation is paid for the first seven days of disability unless the disability continues for more than 21 days, in which case the first seven days' compensation is paid retroactively.

**Medical benefits**

Injured employees are entitled to all reasonable medical expenses, including surgical, hospital, nursing, rehabilitative, and pharmaceutical care, as well as any necessary supplies and sick travel costs. Medical benefits do not offset any cash benefits.

The employer may choose the physician or hospital providing services, though the injured employee may, with reasonable cause, request a change of treatment subject to approval by the Industrial Commission.

Fees for medical compensation, excepting hospital costs, are capped by North Carolina statute.

The right to compensation ends two years after the last payment is made unless a claim is made before the end of that period showing the necessity of future treatment.

**Death benefits**

If a covered injury leads to the death of the employee within six years of the injury or two years of the final determination of disability, death benefits are payable to the employee's dependents or next of kin.

The benefit amount is two-thirds of the employee's average weekly wage (not to exceed the state maximum) for 400 weeks (minor children and disabled spouses may receive the benefit for a longer duration).

Funeral benefits are also payable in the amount of \$3,500.

Part II  
New Sample Questions

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No new sample questions at this time.

Part III  
Answers and Rationales

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No new answers at this time.

## Part IV

### Errata

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In the sample examination (Unit 10), the following questions are substituted. Answers in the answer key have not changed.

18. Each of the following is a covered territory under the CGL policy EXCEPT
- A. Canada
  - B. Mexico
  - C. Puerto Rico
  - D. New Mexico
68. All of the following are indirect loss coverage available under boiler and machinery forms EXCEPT
- A. business interruption
  - B. consequential damage
  - C. extra expense
  - D. business income
72. Which of the following is excluded from flood insurance?
- A. Sewer backup
  - B. Overflow of inland waters
  - C. Surface water runoff
  - D. Mudslide

To submit comments or suggestions, please send an email to [errata@kaplan.com](mailto:errata@kaplan.com).

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