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CROSS-EXAMINATIONBY MR. MORRIS:

Q Again, I want to refer you back to Exhibit 57, and if you were in your position in the department that you operate in, you ran this report and you looked at it and you saw all these conversions on here, what would your impression be?

A It would appear to be a pattern of activity of an agent taking premiums and not securing insurance.

Q Do you know -- do you have any knowledge of contracts with any insurance companies and insurance agents?

A No.

Q Have you ever been an insurance agent?

A No.

Q Do you know whether or not an insurance agent is required to send all the money that he receives from the policyholder to an insurance company?

A I don't know the exact legal aspects as to exactly how it's supposed to be handled. I just know that the agents

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1 are supposed to secure insurance, in doing
2 that they turn the premiums or whatever is
3 necessary to a company that therefore
4 places the insurance and that's when the
5 insured would then receive their copy of
6 their insurance policy.

7 Q So would you be surprised to
8 learn that under many contracts that
9 insurance agents have with companies the
10 agent does not, in fact, send any money to
11 the insurance company, but still obtains
12 insurance coverage. Are you able to --
13 would you be surprised to that fact?

14 A That you're saying that an
15 agent --

16 Q I'll rephrase it. Would you be
17 surprised to find that an insurance agent
18 can receive money from an applicant and
19 never send a penny to the insurance
20 company, yet the policyholder would still
21 have insurance?

22 A How would they have insurance. I
23 don't understand.

24 Q Are you saying that you would be
25 surprised to find that?

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1 A I think I would be.

2 Q Then to carry that one step
3 further, would you be surprised to find
4 that a contract between Phil Morris
5 Insurance Agency and an insurance company
6 would state that: One, the company does
7 not accept customer checks. They only
8 accept agency checks; two, that the agent
9 is to withhold his commission from the
10 funds collected on behalf of the
11 policyholder and remit that or if there is
12 no net then, in fact, the agent does not
13 have to send any money at all to the
14 insurance company. Would that surprise
15 you?

16 A I don't think I could really
17 answer that question because I'm not
18 familiar with contracts between the agents
19 and companies. Because I am familiar with
20 the fact that there are various contracts,
21 because we received numerous calls from
22 agents asking us questions about can their
23 insurance company that they're doing
24 business with do certain things. And we
25 have to refer you back to the contract and

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1 I'm not familiar with individual agent's
2 contracts.

3 Q You brought up an interesting
4 point. Isn't it customary for the Texas
5 Department of Insurance, when they do have
6 a complaint from an insurance agent that
7 involves his contract with that insurance
8 company, for the Texas Department of
9 Insurance not to take any action and
10 referred by the state as contractual matter
11 between you and the insurance company.

12 A I can't say that we would not
13 take any actions because that's outside of
14 the area that I work. I do know that if
15 it's a specific issue between an agent and
16 a company, we tell the agent that's a
17 contractual matter between the agent and
18 the company. It's a civil matter and they
19 need to pursue it by legal -- whatever
20 legal remedies needed.

21 Q Okay. So if an insurance

5. WHOLE DOLLAR PREMIUM

The premium for each exposure shall be rounded to the nearest whole dollar, separately for each coverage provided by the policy. A premium involving \$.50 or more shall be rounded to the next highest whole number. This procedure shall apply to all adjustments, including endorsements or cancellations.

6. RATES

Rates shown in this guideline represent TWELVE (12) MONTH PREMIUMS. We will offer a six (6) month policy period with 55% of annual premiums (subject to 55% of minimum physical damage minimum premium requirements) plus standard policy fee.

7. TERMS

→ Cash for net premiums (gross charges less commission) must accompany the application. **WE WILL ONLY ACCEPT AGENCY CHECKS.** If the premium is financed, financing can **ONLY** be offered through one of our approved sources and the premium note **MUST BE ATTACHED TO THE APPLICATION.** Refer to your marketing representative for the approved premium finance sources by Esprit. Risks submitted with non-approved premium finance sources will result in withdrawal of agents authority/contract for this preferred program.

8. COMMISSIONS

Commission is fifteen percent (15%) payable on **PURE PREMIUM.**

9. POLICY FEE

Policy fees are **FULLY EARNED** upon binding of risk with Esprit. Agent is to charge a \$100 policy fee per policy on annual term policies. Agent is to charge a \$60 policy fee per on semi-annual policies.

10. ATPF FEE (As Regards To All Liability Policies)

House Bill 640 established this authority and has set a surcharge of \$1.00 for each vehicle providing primary liability coverage. For a 6 month term policy the surcharge is 50 cents for each vehicle. The surcharge is non-refundable.

11. ENDORSEMENTS

Endorsements that require additional premiums are computed at the rates in effect at the time of endorsement. Submit all requests for endorsements in **WRITING.** You may fax to us the endorsement request at 800-633-1669

Normal EGA binding rules apply if a request for an endorsement is mailed. This means the endorsement request will be bound as of the date and time shown on the endorsement request **provided:** 1) Postmark date on envelope is within two (2) business days of endorsement request date. Coverage will be bound the day of postmark if more than two (2) business days after endorsement request date. 2) No changes will be made over the telephone. Complete lienholder name and address must be provided to be added to the policy.

12. CANCELLATIONS

No flat cancellations without prior approval. To effect a cancellation, Company must be relieved of obligation to loss payee (if any), as well as to the insured.

In the event agent receives a returned NSF check from insured, fax a copy of the front and back of the check to the company within eight (8) days from the binding date, Company will allow flat cancellation. A \$20 processing fee on the account will be applicable.

Non-pay cancellations by the company will be reinstated if the amount past due is postmarked prior to the effective date of cancellation.

7/25/96

Deerbrook Automobile Insurance Plan Electronic Remittance Procedures

Mail time from just about anywhere in the country averages 5 days. To improve customer service by applying cash in a more timely manner the Deerbrook Automobile Insurance Plan offers agents the option to submit payments electronically. The following are the procedures to be followed. If there are any additional questions please contact the Specialists at the Service Center.

Agent fills out and submits form DI131 in postage paid envelope to the Support Center in Dallas. This form can also be faxed to 1-800-349-7341. Form DI131 authorizes the Deerbrook Automobile Insurance Plan to sweep the agent's designated depository account.

→ Agency takes customer's payment and deposits into local account.

Agency then prepares their remittance report on form DI130 (instructions on form) and faxes it to the Support Center at 1-800-349-7341 each day.

Remittance reports received on **policies in force** prior to 2:00 p.m. will be credited to the policies on the same business day. **New business policies** will be credited as soon as the policy is received and input to the system.

→ A debit will be sent to the Agency's bank no earlier than 3 business days following notification of remittance.

Any bad check notification to the Deerbrook Automobile Insurance Plan will be credited back to the Agency's account the day after DAIP is notified. Notification to the Deerbrook Automobile Insurance Plan must be made via form DI130 prior to 11:00 a.m. central time to ensure next day credit. The agency's account will be credited the following day for the reimbursement.

Note that per state guidelines, a new business policy will be voided effective inception date if an invalid or bad check is received as down payment.

Return check fees will be funded back to the agency upon receipt of the proper documentation, i.e.: bank receipt. All documentation is to be sent DAIP's Data Center in Dallas via the postage paid envelope. (DI122)

At month end, the Deerbrook Automobile Insurance Plan will provide the Agency a list of the sweeps made during the month to help facilitate the reconciliation process. This list will include all transactions processed for the month and will be sent to the agency by the 5th workday of the month.