Ethics and professional practice (Canada)

Examples of exam questions

Competency: **Develop an ethical professional practice, in compliance with the rules governing the life insurance sector**

Ethics and professional practice (Canada)

Question 1

Suzanne, a life insurance agent, has asked her assistant Rosy, who is not yet licensed, to telephone people to schedule meetings with Suzanne to discuss their insurance needs. She intends to contact people who attended the same school as she and Suzanne using an alumni directory. Suzanne has registered and subscribed to the National Do Not Call List (DNCL).

What should Suzanne tell Rosy?

a) Calls to people with shared backgrounds are exempt from the DNCL.
b) As Suzanne has registered and subscribed to the DNCL, Rosy can solicit insurance from anyone listed in the alumni directory.
c) Rosy should restrict her calls to businesses and schedule meetings with Suzanne to discuss group insurance.
d) Rosy should email anyone she cannot reach by telephone offering meetings with Suzanne to discuss their insurance needs; emails are exempt from DNCL.

Correct answer: c)

Explanations

Answer a: **False.** There is no exemption from the DNLC for calling people with shared backgrounds. Rosy cannot call anyone on the list.
Answer b: **False.** Rosy is not yet licensed; she cannot solicit insurance.
Answer c: **Correct answer.** Calls to businesses are not prohibited.
Answer d: **False.** Canadian anti-spam legislation prohibits the sending of commercial electronic messages if the sender does not first have the recipient's consent.

References

Reference manual: *Ethics and professional practice*, 2nd Edition, 2015, sections 1.1.7, 1.6.3 and 1.6.4
Evaluated competency sub-component in Curriculum: 1.1. Delimit the legal framework governing life insurance

Ethics and professional practice (Canada)

Question 2
When Karen and Jim were newly married, they decided after meeting with a life insurance advisor that they should take out a joint life insurance policy with $350,000 on each of their lives to cover the cost of their mortgage, naming each other as beneficiaries. Jim became the sole owner of the policy. They were happy they took out the insurance when they did because a few years later Karen developed type 1 diabetes.

After 10 years of marriage Karen and Jim went through a bitter divorce, selling the house and going their separate ways. Jim had even moved to another province and both Karen and the agent had lost all contact with him. After the divorce Karen met with the agent to request a change to the policy in naming a new beneficiary on her life.

What course of action should the agent take?

a) The agent should contact the insurance company, explain the situation and request the beneficiary change be made using the proper forms.
b) The agent should have the policy converted into two separate policies so that Karen can make the necessary changes.
c) The agent must explain to Karen that since Jim is the sole owner of the policy, only he can approve any changes to the status of the policy or its beneficiaries.
d) The agent must explain to Karen that since the policy was approved to cover the mortgage on a home they no longer own, the coverage is no longer in effect, so the policy will be cancelled.

Correct answer: c)

Explanations
Jim is the sole policy owner or policyholder and consequently is the individual or legal person who has legal ownership of the policy and exercises the contractual and statutory rights that go with being the owner. The policyholder may change a beneficiary using a beneficiary designation/change form issued by the insurer, unless the existing designation is irrevocable.

References
Reference manual: *Ethics and professional practice*, 2nd Edition, 2015, sections 2.1.2 and 2.1.4
Evaluated competency sub-component in Curriculum: 1.2. Characterize the parties involved in the contract

Ethics and professional practice (Canada)

Question 3
On May 1st, Anne meets with her insurance agent, Greg, and decides to apply for a term life policy. She completes the application and declines the temporary insurance agreement, requesting instead “cash on delivery,” as she already has some coverage in force under another contract.

On May 16th, Greg is advised by his head office that Anne's application has been approved. On May 20th, Greg delivers the policy to Anne and she confirms her banking information with him so that she can begin her monthly premium payments as of May 25th.

When is Anne's new policy deemed to be in force?

a) Anne's policy is in force as of May 1st, the date of her application.
b) Anne's policy is in force as of May 16th, the date she was approved for coverage.
c) Anne's policy is in force as of May 20th, the date it is delivered to her and she accepts it.
d) Anne's policy is in force as of May 25th, the date the first month's premium is received.

Correct answer: d)

Explanations
Answer a: **False.** The application form is only the first part of the process. It must be reviewed by an underwriter after which the insurer may make an offer to insure.

Answer b: **False.** Following the approval for coverage, the policy must be delivered and the agent must determine if there has been a change in insurability between the date of the application and policy delivery date. Consequently, the policy could not be in force the day Anne was approved for coverage.

Answer c: **False.** Although the policy was delivered to Anne and accepted on May 20th, she did not pay the first month’s premium on that date and therefore the policy could not take effect on that date.

Answer d: **Correct answer.** The policy can only take effect when it is delivered, accepted and the first month’s premium is received, in this case May 25th.

References
Relevant section of exam preparation manual: *Ethics and professional practice*, 2nd Edition, 2015, section 2.2.1.5
Evaluated competency sub-component in Curriculum: 1.3. Contextualize the rules relating to the contract’s formation, taking effect, reinstatement and termination

Ethics and professional practice (Canada)

Question 4
Mary, a 53-year-old banking executive has group insurance through her employer. Mary lives alone but supports her elderly mother who also lives alone and has very limited resources. Mary decided five years ago to take out a 10-year-term single life insurance policy from her friend who was an insurance broker.

Mary had suffered from mild depression for over 10 years and was prescribed medication. The policy was rated 150% due to her depression. The face amount of the policy was for $100,000. She named her mom as beneficiary, and her favourite charity as secondary beneficiary.

Five years later Mary's mother had been admitted to a long-term care facility because of dementia. Mary contacted her broker and requested that her insurance be increased by $250,000 so that her mother could continue to receive the financial support she would need in the event of Mary's death.

Another fully underwritten policy, with full disclosure, was approved and issued for $250,000, with Mary's mother as beneficiary and her charity as secondary beneficiary.
One year later Mary's mother passed away. The grief was too overwhelming for Mary and within days of her mother's death, Mary took her own life.

Based on the circumstances, how will the claims be treated on the two life policies?

a) Insurance will not pay if death is caused by suicide because of her declared depression.
b) There is a two year exclusion on suicide, so only the first policy will pay out to the secondary beneficiary.
c) The maximum payout for death caused by suicide is $100,000, therefore only the first policy will pay out.
d) The primary beneficiary was deceased, so the $100,000 and $250,000 policies were paid out to Mary's named charity.

Correct answer: b)

Explanations
Committing or attempting to commit suicide is not illegal but a policy does not have to provide a benefit if a person insured commits suicide. Most individual policies will pay, but restrict paying the death benefit, if death is caused by suicide or attempting suicide within the first two years or three years the policy is in effect or within two years of any reinstatement. After a policy has been in effect for a stipulated period of time, typically two or three years, the exclusion provision is finished and the death benefit is payable even if death is due to suicide. Provincial and territorial insurance statutes confirm that this is not a violation of public policy.

References
Reference manual: *Ethics and professional practice*, 2nd Edition, 2015, section 2.6.1.6
Evaluated competency sub-component in Curriculum: 1.4. Explain the main provisions and clauses of an insurance or annuity contract

Ethics and professional practice (Canada)

Question 5
Jennifer is Daryl's third wife. One day, he suffers a massive heart attack at work and dies. Jennifer remembers the insurance policies the couple took out when they were married three years ago. Daryl has a $1M whole life policy and Jennifer is named as a revocable beneficiary in the contract.

A short time after she begins the claim process with the aid of her lawyer, she receives notice that there are other claimants. Daryl had fallen behind in his child support payments to his first wife, to a total of $50,000. Furthermore, Jennifer finds out that Daryl had changed the beneficiaries to herself and his two children (equally) from his first marriage about a year ago, without her knowledge. Finally, a creditor has provided proof that Daryl pledged his policy against a debt he owed them, in the amount of $50,000.

How much of the $1M death benefit will Jennifer be entitled to?

a) $300,000, because the debtor assignee and the child support payments need to be paid first, then the remaining benefit is distributed between the beneficiaries.
b) $333,333, because beneficiaries can only be individuals related to the insured, with an insurable interest.
c) $900,000, because the debtor assignee and child support payments need to be honoured; children, however, cannot be beneficiaries.
d) $1,000,000, because the policy was taken out while he was married to Jennifer.

Correct answer: a)

Explanations

Answer a: $300,000, because the debtor assignee ($50,000) and the child support payments ($50,000) need to be paid first, then the remaining benefit ($900,000) is distributed equally between the beneficiaries: Jennifer and each of Daryl's two children.

Answer b: **False.** $333,333 (an equal division between Jennifer and each of the two children), because beneficiaries can only be individuals related to the insured, with an insurable interest.

Answer c: **False.** $900,000, because the debtor assignee ($50,000) and child support payments ($50,000) need to be honoured; children, however, cannot be beneficiaries.

Answer d: **False.** $1,000,000, because the policy was taken out while he was married to Jennifer.

A court order may allow an individual to claim the insurance benefit, for example where money is owed for spousal or child support. A claimant may also be a debtor assignee of the policy. In this case the $50,000 debtor assignee and $50,000 child support payments must be paid first, which leaves a remaining benefit of $900,000. Insurers will pay benefits based on the most recent beneficiary designation they have on file. In this case Jennifer and Daryl’s two children will each receive $300,000.

References

Relevant sections of exam preparation manual: *Ethics and professional practice*, 2nd Edition, 2015, sections 3.1.1 and 3.1.2

Evaluated competency sub-component in Curriculum: 1.5. Integrate into practice the rules relating to beneficiary designation and exemption from seizure of benefits

Ethics and professional practice (Canada)

Question 6
Three decades ago Pierre sold a $100,000 life insurance policy to Andrzejek who was unmarried and who wanted to leave an estate to a niece and nephew, Wanda and Jacob. They are the children of a brother who had immigrated to Canada with Andrzejek. He named Wanda and Jacob as equal beneficiaries under the policy describing them as his niece and nephew.

Andrzejek died and at the funeral Pierre learned that the deceased had other brothers who had stayed in Europe and that one of them had also named a son Jacob who resides in Europe. The brother and sister in Canada have a copy of the policy and have asked Pierre to obtain the claim forms from the insurer. They have had no contact with their cousin in Europe but learned that another relative told the Jacob in Europe that he may be entitled to some insurance money.

What should Pierre do knowing there is a second nephew of the deceased also named Jacob?

a) He should request the forms for the Canadian niece and nephew from the insurance company as requested and inform it that there is a potential problem because there is a second nephew named Jacob.
b) He should obtain the forms for the Canadian niece and nephew. He should not inform the insurer about the possibility of a conflicting claim because he believes the Canadian nephew is the intended beneficiary.
c) He should request forms for the Canadian niece and nephew and one for the European nephew as he has been made aware of his existence. He should inform the insurer that there are two possible claimants with the same name and relationship.
d) He should advise the Canadian niece and nephew to negotiate a split with the European cousin to avoid a court case and a delay in receiving the benefit.

Correct answer: a)

Explanations
Pierre is the agent who sold the policy and he is aware who Andrzejek named as his beneficiaries. However, he has also been made aware that there is another relative with the same name and relationship to the deceased.

A beneficiary must complete a claim form. Agents can obtain the claim forms from the insurer and in this situation Pierre should obtain the forms for the Canadian niece and nephew.

Where there is a named beneficiary, the insurer will seek satisfactory proof of identity; for example, individuals with common names might face additional hurdles to establish their entitlement. Beneficiaries are sometimes described in terms of a relationship, such as “children.” These claimants will have to establish their qualification by means of additional documentary evidence, e.g. verification by third party (possibly the agent).

Pierre, as agent for the company, should inform it that there is a potential problem because there is a second nephew in Europe also named Jacob. The company faced with conflicting or difficult to reconcile claims of beneficiary entitlement can turn to the Courts. A statutory provision found in the provincial and territorial insurance acts permits payment into Court.

This discharges the insurer from liability, and allows for the resolution of the conflicting claims by a system designed to review evidence and adjudicate claims.

References

Reference manual: *Ethics and professional practice*, 2nd Edition, 2015, sections 3.1.4.4 and 3.3

Evaluated competency sub-component in Curriculum: 1.6. Contextualize the rules relating to claims and the payment of benefits

Ethics and professional practice (Canada)

Question 7
Carl, a life insurance agent, has his office in a small shopping mall and occasionally gets walk-in clients. A man entered his office with the intention of opening a registered retirement savings plan (RRSP) and contributing $20,000. He produced a driver's license as identification and told Carl he had been a resident of Canada for three years. He was unable to provide a social insurance number and said he would telephone Carl that afternoon with the information. He left a $20,000 cheque for Carl to attach to his application.

Should Carl report the transaction to FINTRAC?

a) Yes, because it meets the definition of a suspicious transaction.
b) Yes, because the amount is substantial.
c) No, because it is the insurer's responsibility to determine whether this client is a politically exposed foreign person.
d) No, because the client is buying an exempted product.

Correct answer: d)

Explanations
RRSPs are exempted products. Consequently, Carl would not have to report the transaction to FINTRAC. Other than the client not being able to provide his social insurance number immediately, there is nothing out-of-the-ordinary with this transaction.

Some suspicious transaction indicators that an agent is most likely to notice include

- The client refuses to provide the required identification documents, wishes to establish his or her identity other than by identification documents or excessively delays submitting company documents;
- The client is accompanied and monitored, is withdrawn or nervous, or explains himself or herself in an unusual manner;
- The client demonstrates unusual curiosity about internal controls or unusual knowledge of legislation on suspicious transaction reporting;
- The client deposits third-party cheques for high amounts;
- The client is more interested in the consequences of a product's termination than its long-term advantages;
- The transaction is unnecessarily complex for its purpose;
- The transaction does not seem to fit with the client's apparent financial situation or usual activities; and
- The client provides a P.O. Box in an area where P.O. Boxes are not typically used to receive regular mail (cities, metropolitan areas, etc.).

References
Reference manual: *Ethics and professional practice*, 2nd Edition, 2015, section 4.1.4.2
Evaluated competency sub-component in Curriculum: 2.1. Explain the role of the organizations that protect clients.

Ethics and professional practice (Canada)

Question 8
Newly licensed life insurance agent Glen meets with Denis who wishes to secure life insurance. During the application process, Denis presents a credit card that expires next month, stating that it is the only identification he has on hand, along with a bank cheque for the first month's premium.

To meet regulatory standards, what should Glen do?

a) Glen should not submit the application form because the credit card expires next month.
b) Glen should submit the application form using the bank account cheque information to verify and record Denis' identity.
c) Glen should not submit the application form because neither credit cards nor bank cheques are acceptable forms of identification.
d) Glen should submit the application form using the credit card to verify and record Denis's identity as the card is from a reputable financial institution.

Correct answer: c)

Explanations
A life insurance agent is required to determine the identity of a client purchasing life insurance. Acceptable documents are federal, provincial and territorial government-issued identification such as a birth certificate, driver's licence, passport, permanent resident card, Certificate of Indian Status and record of landing. Therefore, neither a credit card nor a bank account cheque would be acceptable identification for the agent's purposes.

References
Relevant section of exam preparation manual: *Ethics and professional practice*, 2nd Edition, 2015, section 4.1.4.2
Evaluated competency sub-component in Curriculum: 2.2. Integrate into practice the obligations and responsibilities of life insurance agents