

FINAL EXAM – Suitability Issues You Can't Ignore

1. Controlling client risks involves avoiding or _____ them.
 - A. Increasing
 - B. Leveling
 - C. Reducing
 - D. Eliminating
2. First-year reinsurance is used by insurers to shore up their surplus position from losses of _____.
 - A. The previous year
 - B. First year policies
 - C. Cancelled policies
 - D. Lapsed policies
3. Legally, a *personal relationship* between agent and a prospective insured is created when _____.
 - A. A prospective insured consults and agent
 - B. A prospective insured provides an agent with specific information about his unique circumstances
 - C. A prospective insured relies on the agent to obtain appropriate coverage tailored to his circumstances
 - D. All of the above
4. A pure risk is one which _____ result in the possibility of gain.
 - A. Cannot
 - B. Might not
 - C. Probably will not
 - D. Could
5. A moral hazard is a condition that _____ the likelihood that an insured or a person in a position to be paid by an insurer will intentionally cause a loss.
 - A. Increases
 - B. Decreases
 - C. Predicts
 - D. Assumes
6. The meaning of suitability conduct is that agents should size-up a client and _____.
 - A. Collect the highest commissions possible
 - B. Guess about his requirements
 - C. Anticipate his needs when he can't
 - D. Ask about his excess funds
7. State Guaranty Fund coverage may not be disclosed as a selling advantage in some states. If this is the case, agents should privately exercise diligence by _____.
 - A. Purchasing higher limits
 - B. Having his own errors & omissions cover client losses
 - C. Diversifying among several insurers and/or contracts
 - D. Hoping for the best
8. Seniors like consistency and _____ in their business dealings.
 - A. High rates
 - B. Nice appearance
 - C. Uniformity
 - D. Quiet surroundings
9. A charging order is intended to protect _____ form the claims of another individual partner.
 - A. Policy holders
 - B. Partners of a partnership
 - C. Innocent bystanders
 - D. Insurance companies
10. Obtaining insurance for a client, with a view to earning a commission, establishes you as the client's agent. This means you owe a duty to act with reasonable _____.
 - A. Care
 - B. Skill
 - C. Diligence
 - D. All of the above
11. An *insurer's quick liquidity position* is defined as the amount of cash and quickly convertible investments as a percentage of _____.
 - A. Total assets
 - B. Liabilities
 - C. Debt
 - D. Premium income
12. A critical consideration in rating an insurer, according to Fitch Ratings, is the analytical judgement as to whether _____ will persist or reverse.
 - A. Historical trends
 - B. Reinsurance
 - C. Disintermediation
 - D. Bond markets

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13. Reinsurance, say industry analysts, should not exceed 0.5 to 1.3 times a company's _____.
- A. Liabilities
 - B. Assets
 - C. Surplus
 - D. Liquidity ratio
14. The agent's role in monitoring underwriting is to meet with each client on an annual basis to _____.
- A. Review new product
 - B. Review coverages
 - C. Ensure that information on file is accurate
 - D. B & C only
15. An investigative consumer report provides information on a consumer's _____.
- A. Character & reputation
 - B. Personal Characteristics
 - C. Mode of living
 - D. All of the above
16. Reinsurance is purchased by an insurer so that it can _____ large or catastrophic losses.
- A. Completely isolate itself from
 - B. Spread it's risks & limit it's own liability from
 - C. Make insureds pay for
 - D. Involve the insurance commissioner in it's
17. In the *Steadman v. McConnell* case, the court determined the agent to be an expert and the insured a mere laymen. Their relationship was a _____ one in which the insured was entitled to believe the agent's material statements.
- A. Fiduciary
 - B. Stressful
 - C. Complicated
 - D. Sustainable
18. Needs analysis helps the agent sell the right amount of insurance to the client for _____.
- A. Optimum commissions
 - B. Less commissions
 - C. The right reasons
 - D. Less time spent
19. Loss control procedures involve the steps necessary in eliminating exposures to risk and _____.
- A. Increasing agent commissions
 - B. Reporting them to the insurance commissioner
 - C. Reducing their frequency or severity
 - D. Safeguarding premiums
20. Different generations tend to define themselves in _____.
- A. In the shadow of a momentous event
 - B. Through members of their own generation
 - C. Monetary terms
 - D. A & B only
21. The Limited Liability Company (LLC) is a hybrid entity which has similar characteristics to both a Corporation and a _____.
- A. General partnership
 - B. Limited partnership
 - C. Joint venture
 - D. Sole proprietorship
22. Agent records are admissible in court as long as they are generated _____.
- A. In the ordinary course of business
 - B. On a computer
 - C. By you and witnessed by someone else
 - D. In duplicate
23. *Geographic and product boundaries* for financial markets, traditionally not a factor for insurance companies, have faded. New products and services have _____ between banks, security brokers and insurance agents.
- A. Underscored the importance
 - B. Blurred the distinctions
 - C. Organized the relationship
 - D. Defined the role
24. Standard & Poor's claims paying ability is an assessment of an insurer's capacity to _____.
- A. Pay it's creditors
 - B. Respond quickly to claims
 - C. Meet it's policyholder obligations
 - D. Follow state claim procedures

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25. The Risked Based Capital Model Act defines acceptable levels of _____ that insurers may incur.
- A. Opportunity
 - B. Risk
 - C. Reinsurance
 - D. Premium income
26. State Guaranty Funds coverage is triggered when the insurer has _____.
- A. Been declared financially impaired or insolvent by a court of law.
 - B. Gotten behind in payments
 - C. Less than \$10 million in capital
 - D. Refused to cooperate with the insurance commissioner
27. For insurable interest to exist in life insurance, the death of the insured must _____.
- A. Be sudden, without warning
 - B. Be investigated by the insurer
 - C. Have clear and definite financial impact on the policy owner
 - D. Always be an accident
28. The Medical Information Bureau is considered to be an important tool because of its role in _____.
- A. Estimating illness
 - B. Reducing fraud
 - C. Defining preexisting conditions
 - D. Establishing health qualifications
29. The purpose of a need-driven sale system is to analyze a client's needs and determine _____.
- A. How insurance can best meet those needs
 - B. How quickly you can get them covered
 - C. The highest premium possible
 - D. The maximum allowable commission
30. Repositioning to meet client needs means an agent must _____.
- A. Ask questions of clients
 - B. Learn client objectives
 - C. Understand client groups
 - D. All of the above
31. In *Parsaie v. United Olympic* a _____ was the basis of a dispute between the insured and agent. The court determined that the insured was entitled rely on the advice of the agent.
- A. Language misunderstanding
 - B. Cancelled check
 - C. Lost premium
 - D. Commission overcharge
32. The shift away from *manufacturing to service orientation* means that suitable workplace policies will address more _____ coverages.
- A. Slip and fall
 - B. Estate oriented
 - C. Intellectual
 - D. Group
33. An insurer's asset-default test establishes varying reserve accounts be established for various classes of investments based on their _____.
- A. Liquidity
 - B. Default risk
 - C. Profitability
 - D. Level of reinsurance
34. By size of company, fewer insurer failures have hit companies with assets greater than _____.
- A. \$10 million
 - B. \$25 million
 - C. \$50 million
 - D. \$100 million
35. In *Reese v. Medical Professional Liability*, a State Guaranty Fund paid the _____ of a policy for an insolvent insurer, but punitive damages were denied were denied.
- A. Strict limits
 - B. Unpaid premiums
 - C. Commissions
 - D. Premium taxes
36. Retaining risk is a standard practice for all insureds. A _____, is an example of a risk retained.
- A. Conditional receipt
 - B. Deductible
 - C. Return of premium rider
 - D. Liability umbrella

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37. Needs-based selling "involves" the client, allowing him to use his own ideas and _____.
- A. Special knowledge
 - B. Expertise
 - C. Assumptions
 - D. Limitations
38. In serving boomer markets it is important to be _____ oriented.
- A. More detail
 - B. Less detail
 - C. More technically
 - D. Graphic
39. Fraudulent conveyance is defined as a transfer of property _____, with the intent to defraud creditors.
- A. At night
 - B. Without adequate consideration
 - C. At inflated prices
 - D. Through the quasi-court
40. Suitability means resisting the urge to jump at the very first need your client reveals. Ask your client for _____, never assume without their input.
- A. Up-front deposits
 - B. Their entire history
 - C. Clarification
 - D. More business
41. The Gramm-Leah-Bliley act encourages industry convergence (mergers) because it enables financial service companies to establish _____ that provide banking, brokerage and insurance services.
- A. Holding companies
 - B. Reverse mortgage entities
 - C. Marketing groups
 - D. Non-profit organizations
42. Moody's *financial strength ratings* measure the risk that an insurer will fail to _____.
- A. Provide prompt claims service
 - B. Honor its senior policy holder claims in full on a timely basis
 - C. File required new product offerings
 - D. Pay commissions
43. A cut through clause requires _____ to pay a loss, or portion of loss, directly to the policy owner or insureds when an insurer goes insolvent.
- A. The state guaranty fund
 - B. The insurance commissioner
 - C. A reinsurer
 - D. The insurer's board of directors
44. The limitations of reinsurance are many, including . . .
- A. Reinsurance does not make a bad risk insurable
 - B. Reinsurance does not allow for the under-pricing of risks
 - C. Reinsurance does not make a risk exposure more predictable
 - D. All of the above are limitations
45. Use of *consumer reports or credit reports*, under the Fair Credit Reporting Act, is limited to _____ insurance transactions only.
- A. Life
 - B. Casualty
 - C. Health
 - D. The firm offer of
46. When you conduct *client needs research* you will be able to assess your client markets and _____ how to approach and serve them before you ever meet.
- A. Identify
 - B. Classify
 - C. Guess
 - D. Exactly determine
47. Under community property laws a spouse who pays a single payment on behalf of the other spouse is said to have granted _____ to the other spouse to contract joint debts.
- A. Marital duty
 - B. Combined responsibility
 - C. Apparent authority
 - D. Divorce commencement
48. An attorney's *drafting history* contains insurance industry records and deliberations.

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It's purpose is to seek the original meaning of _____ and the manner in which they were intended to apply.

- A. Endorsements
- B. Policy terms
- C. Conditional receipts
- D. Insurance applications

49. It is prohibited to use agent trust accounts as _____.

- A. A personal possession
- B. Collateral for either business or personal loans
- C. An asset on a personal financial statement
- D. All of the above are prohibited

50. A *cohort* is a group of people who share similar _____ that create bonds or tie them together. Knowing what makes a cohort group tick is a powerful determinant of insurance needs.

- A. Incomes
- B. Experiences
- C. Demographics
- D. Residence locations

--END EXAM--

172 **Suitability Issues Exam** **20 Hours Satisfies Ethics** **Instructions**

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