

Part VII

Practice Exam

1. A survey of 1,200 CLUs and ChFCs listed several sources of potential help for responding to ethical challenges. These include:
 - I. One's own personal moral values and standards.
 - II. Compromising ethical values to meet production quotas.
 - III. A company management philosophy that emphasizes ethics in business operations.
 - A. I and II
 - B. II and III
 - C. I and III
 - D. I, II and III

2. The process of selecting prospects and completing applications is known as:
 - A. Fiduciary responsibility
 - B. Field underwriting
 - C. Law of Agency
 - D. Due diligence

3. Life applications are usually contestable for:
 - A. Ever
 - B. 6 months
 - C. 5 years
 - D. 2 years

4. An agent's possession of a carrier's blank application forms is an example of _____ authority.
 - A. apparent
 - B. implied
 - C. expressed
 - D. All of the above

5. Replacement transactions include:
- A. Any surrendered policy
 - B. Any changed that results in a reduction of benefits
 - C. A change to reduced paid-up insurance
 - D. All of the above
6. The SEC definition of a "security":
- A. Is very inclusive and may trap an unwary agent.
 - B. Is very precise and allows an unregistered agent to sell pay phone vending machine leases without penalty.
 - C. Excludes corporate bonds and mutual funds.
 - D. Does not apply to agents who choose not to be appointed by a broker-dealer.
7. A broker-dealer will be concerned about "selling away" and a representative's outside employment because:
- A. State insurance departments must approve all agent employment situations.
 - B. A broker-dealer is responsible for all its representatives selling and marketing activities even when they are not supervised directly.
 - C. It is mandated by the NASD Code of Ethics.
 - D. The relationship between a broker-dealer and a registered representative is not subject to the Law of Agency.
8. Areas where recent insurance regulation is paralleling securities practices include:
- A. Group life and Section 419 sales.
 - B. Medicare supplement and long term care insurance sales.
 - C. Viatical settlement and non-admitted company transactions.
 - D. Any replacement transaction when an agent refuses to take an order for an unsuitable product.

9. Practical ethical guideposts include:

- A. "Are You in Compliance?"
- B. Professional codes of ethics.
- C. Professor Derry's five questions.
- D. All of the above.

10. The differences between due diligence and due care are:

- A. Due diligence is an NASD requirement and is less stringent than due care.
- B. Due diligence is an NASD requirement and is more stringent than due care.
- C. Due care is an SEC requirement and is more stringent than due diligence.
- D. Due care is an ABA requirement and is more stringent than due diligence.

Answer Key

1. C
2. B
3. D
4. B
5. D
6. A
7. B
8. B
9. D
10. B