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PLEASE INDICATE YOUR ANSWER BY USING A PENCIL AND MARKING AN "X" THROUGH  
**THE LETTER (A, B, C, D) WHICH YOU HAVE SELECTED AS THE CORRECT ANSWER**

NAME \_\_\_\_\_ SIGNATURE \_\_\_\_\_ SS# \_\_\_\_\_  
 (PRINT)

**“FUNDAMENTALS OF INSURANCE LAW**

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| 1) A B C D  | 26) A B C D |
| 2) A B C D  | 27) A B C D |
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| 22) A B C D | 47) A B C D |
| 23) A B C D | 48) A B C D |
| 24) A B C D | 49) A B C D |
| 25) A B C D | 50) A B C D |

# “Fundamentals of Insurance Law”

## Self Study Examination

## 50 Questions

**Instructions:** This examination consists of 50 questions in multiple choice format. Four possible answers have been presented for each question. On your answer sheet indicate the best answer to each question. There is no penalty for guessing incorrectly.

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### QUESTIONS 1-3 RELATE TO THE MATERIAL IN SECTION I

- 1) The common law is
  - A) a written set of legal principles.
  - B) an unwritten code of conduct and behavior to which society expects its citizenry to adhere.
  - C) an unwritten set of legal principles based on Old English Law.
  - D) rules of conduct every citizen is expected to obey.
  
- 2) All of the following are reasons why states regulate insurance companies, EXCEPT:
  - A) it is granted by the Commerce Clause of the U.S. Constitution.
  - B) to make sure solvency formulas are adhered to
  - C) making certain the public is protected from unqualified agents by establishing licensing standards.
  - D) assuring policyholder and beneficiary rights are enforced.
  
- 3) Variable life insurance contracts must be registered with the SEC because
  - A) they are considered securities
  - B) the U. S. Constitution requires it
  - C) insurance companies guarantee the rate of interest paid to the policyholder.
  - D) insurance companies lobbied heavily for such a requirement

### QUESTIONS 4 & 5 RELATE TO THE MATERIAL IN SECTION II

- 4) Which of the following represents a method of offer termination in contract formation which IS NOT acceptable?
  - A) The offeree rejects the offer
  - B) The offeror withdraws the offer after it has been accepted.
  - C) The offeree makes a counteroffer
  - D) The offer expires at a predetermined expiration date
  
- 5) If a court is interpreting the formation of a contract in which printed, typed and handwritten language appears, the order of dominance from most dominant to least is which of the following?
  - A) Handwritten, typed and printed
  - B) Typed, handwritten and printed
  - C) Printed, typed and handwritten
  - D) Printed, handwritten and typed

### QUESTIONS 6-8 RELATE TO THE MATERIAL IN SECTION III

- 6) If a doctor, who is the agent an insurance company, makes a mistake on an insurance application, what is the most likely result under agency law?
  - A) The company is bound to the mistake even if they would not have issued the policy as they did had the mistake had not been made.
  - B) The doctor would be liable because it was his mistake.
  - C) The company is bound only if the doctor was not a licensed physician
  - D) The company would not be bound under any circumstance where an agent makes a mistake critical to acceptance of an application.

- 7) When an action which is otherwise unauthorized is validated because an individual is a purported agent such validation is known as
- A) Reasonable belief
  - B) Implied authority
  - C) Actual authority
  - D) Ratification
- 8) An insurance agent is authorized to act on behalf of a principal in all of the following ways EXCEPT:
- A) collect the first premium due on a policy
  - B) collect renewal premium due on a policy
  - C) solicit insurance sales for the company
  - D) sometimes the agent can pay the premium for an applicant in exchange for a promissory note.

### QUESTIONS 9 & 10 RELATE TO THE MATERIAL IN SECTION IV

- 9) If an applicant and an insurance agent conspire to defraud an insurance company by putting false information on an application, it is known as
- A) Collusion
  - B) Waiver
  - C) Estoppel
  - D) Forbidden Condition
- 10) Under the Doctrine of Election, an individual
- A) must decide whether or not to file suit against an insurance company within 1 year from a perceived injury.
  - B) can select as many legal remedies for injury as the law allows.
  - C) must decide between two inconsistent remedies
  - D) must decide on a single remedy when two or more inconsistent remedies are present.

### QUESTIONS 11-14 RELATE TO THE MATERIAL IN SECTION V

- 11) Mr. Ashton applies for life insurance and the company offers him a life contract. Mr. Ashton writes to the company that he will take the policy if he can have a 10% discount on the premium quoted in the policy. Mr. Ashton's action is
- A) a counteroffer and, if he dies before the company responds to his request, he will still be insured as long as he paid the original premium requested.
  - B) not allowed under the insurance laws of most states
  - C) a counteroffer and the offer by the insurance company to give him a policy is terminated.
  - D) simply a request and does not terminate the offer of the insurance company to insure him.

- 12) When an insurance company delays in rejecting or accepting an application, the majority view of most courts is
- A) silence or inaction does not constitute automatic acceptance.
  - B) delay implies acceptance
  - C) delay implies rejection
  - D) the company will be liable for the death benefit if the applicant dies prior to underwriting.
- 13) Requiring a premium to be paid before insurance coverage is extended is a
- A) Condition precedent
  - B) Condition subsequent
  - C) Conditional receipt
  - D) Binding Receipt
- 14) All of the following statements pertaining to insurable interest are true EXCEPT:
- A) Every individual has insurable interest in his or her own life
  - B) Husbands and wives have insurable interest in each other
  - C) Aunts and uncles have insurable interest in the lives of their nieces and nephews.
  - D) Co-business owners have insurable interest in each other even if they are not related.

### QUESTIONS 15-37 RELATE TO THE MATERIAL IN SECTION VI

- 15) Which of the following is not a component of the face page of a life insurance policy?
- A) Names the parties to the contract
  - B) Stipulation of the number of days of grace days for late policy premium payments
  - C) A brief description of the coverage
  - D) The signatures of insurance company officers
- 16) If an insured intentionally understates his age in an application and then subsequently dies after the policy was issued, based on the age misstatement, the death benefit
- A) will not be paid due if fraud was involved
  - B) will be reduced
  - C) will be increased
  - D) will be paid according to the full face amount

- 17) Which of the following statements about the policy loan provision is correct?
- A) Only principal borrowed, and not interest, must be repaid prior to surrender or death
  - B) Only interest on principal borrowed must be repaid at death or surrender.
  - C) Neither principal nor interest is due at any time since cash value always belongs to the policyowner.
  - D) Both principal and interest will be deducted from any surrender or death benefit payable.

- 18) All of the following statements about the reinstatement provision are true EXCEPT:
- A) A policy which had been previously taken as reduced and paid up may be reinstated.
  - B) Any policy loans must be repaid with interest before reinstated.
  - C) The company can require the insured to prove insurability before effecting the reinstatement.
  - D) The policy can only be reinstated if it has been within a limited period of time from lapse, usually three years or less, and the policy as on extended coverage.

- 19) Supplementary benefits which may be added to the life contract include each of the following EXCEPT:
- A) Guaranteed insurability
  - B) Disability waiver
  - C) Accidental death benefit
  - D) Aviation exclusion

- 20) Which of the following statements about the Accidental Death Benefit are correct?
- I) "Accidental means" is less restrictive standard than accidental result
  - II) It pays an extra amount of proceeds which matches the face amount of the base policy if the cause of death was an accident.
  - III) The insured must die within 6 months of an accident for proceeds to be payable.
- A) I only
  - B) II only
  - C) I and II
  - D) I, II and III

- 21) "Total" disability means
- A) catching a severe cold which lingers for several weeks.
  - B) a person from the State of California is ill
  - C) a person cannot work because of illness or injury at a job for which he is suited or trained by education or experience.
  - D) being able to only do some of your job but not all of the regular duties.
- 22) Before an insurance company will waive premium payments due to disability, the insured must be disabled for a minimum of
- A) 3 months
  - B) 6 months
  - C) 9 months
  - D) 12 months

**Questions 23-29 are true and false statements. If you feel the statement is TRUE, INDICATE the LETTER "A" on your exam answer sheet. If you believe the statement is FALSE, INDICATE the letter "B" on your exam answer sheet.**

**A = TRUE ; B=FALSE**

**In order for a statement to be true, all parts of the statement must be true and if any part of the statement is false, the answer is false.**

- 23) A life insurance policy is a "chose in possession".
- 24) A debtor who assigns a life contract to a bank as loan security transfers certain rights held under the policy including the right to change the policy beneficiary.
- 25) Community property includes any property acquired by spouses during their marriage but excludes property acquired through gift, will or inheritance.
- 26) Insurance policies applied for and issued before a marriage are considered separate property under the law of community property.
- 27) If a beneficiary kills an insured in self defense, it may still be possible for the beneficiary to collect the proceeds from the policy.
- 28) A policyowner of a life contract must have an identifiable insurable interest in the life of an insured otherwise the policy may not be valid.
- 29) An irrevocable beneficiary has a vested right in a life insurance contract.

- 30) Under the terms of a settlement agreement, a Contingent Payee
- A) is the same as the primary payee.
  - B) always receives nothing if the primary payee outlives the insured.
  - C) collects any unpaid income amounts still due after the primary payee dies.
  - D) has the identical rights of a contingent beneficiary in a life insurance contract.
- 31) A state law known as the Simultaneous Death Act says that when an insured and his beneficiary die at the same time as a result of the same incident
- A) it is assumed the beneficiary outlived the insured
  - B) a life insurance contract is rendered invalid
  - C) it is assumed the insured outlived the beneficiary
  - D) the rights of the beneficiary are completely protected.
- 32) When a first premium is paid on a policy at the time of application, renewal premiums will be due
- A) periodically from the exact date of the application
  - B) on the anniversary of policy delivery
  - C) according to the policy effective date
  - D) and payable to the insurance agent
- 33) What happens if an applicant writes a personal check as payment for initial premium and that check is subsequently dishonored?
- A) The policy can be lapsed and the company can sue to collect on the check.
  - B) The policy proceeds are still automatically payable if the insured dies and the premium is simply deducted from the death benefit.
  - C) Under no circumstances will the company be liable to pay the death benefit.
  - D) The insurance agent will be responsible to pay the premium to the insurance company.
- 34) Which of the following statements about the nonforfeiture option is correct?
- A) If the policyholder does not make a selection, the company automatically issues a reduced paid up policy.
  - B) When a policyowner submits paperwork for a cash surrender and subsequently dies, the company is only bound to pay the surrender value even if it had not yet processed the cash surrender.
  - C) Under extended term insurance the death benefit is a reduced face amount payable based on a cash value to age ratio.
  - D) The consent of an irrevocable beneficiary is unnecessary if the policyholder wishes to surrender the policy.
- 35) For policy loan purposes, the cash value in a life insurance contract owned by
- A) the insurance company
  - B) the policyowner
  - C) the irrevocable beneficiary
  - D) the revocable beneficiary
- 36) When a life insurance contract must be interpreted in a court of equity, the possible remedy includes all of the following EXCEPT:
- A) Rescission
  - B) Interpleader suit
  - C) Binding arbitration
  - D) Reformation
- 37) Under the terms of the incontestability clause of a life insurance contract, a contract can be contested and voided when
- A) a material misrepresentation is uncovered at anytime in the future.
  - B) a person other than the insured takes a medical exam, so long as this fact is uncovered in the first two years from the policy issue date.
  - C) it is discovered at anytime in the future that someone other than the insured took the medical exam.
  - D) an undisclosed health problem is discovered four years after the policy was issued.
- QUESTIONS 38 & 39 RELATE TO THE MATERIAL IN SECTION VII**
- 38) Proceeds will be paid to a beneficiary under which of the following conditions?
- A) If the beneficiary is insane at the time the insured dies.
  - B) If the beneficiary is a minor
  - C) If the beneficiary murders the insured
  - D) None of the above
- 39) All of the following must be shown to presume the death of an insured who has mysteriously disappeared, EXCEPT:
- A) the insured has been seen by friends after the disappearance.
  - B) there must be an unexplained absence
  - C) the beneficiary must diligently search for the insured.
  - D) the person must be missing for a prescribed period of time, usually 7 years.

**QUESTIONS 40-44 RELATE TO THE MATERIAL IN SECTION VIII**

Questions 40-44 are true and false statements. If you feel the statement is TRUE, cross out the LETTER "A" on your exam answer sheet. If you believe the statement is FALSE, cross out the letter "B" on your exam answer sheet.

**A = TRUE ; B=FALSE**

**In order for a statement to be true, all parts of the statement must be true and if any part of the statement is false, the answer is false.**

- 40) Under the 1917 NAIC model law for group life contracts, in a contributory plan, the employer paid some of the cost.
- 41) The vast majority of group life contracts are the employer-employee type.
- 42) Under the NAIC Model Group Life Act of 1986 there are 12 standard policy provisions. According to the Grace Period provision, the insured has 31 days to make payment from the due date.
- 43) Under the NAIC Model Group Life Act of 1986 there are 12 standard policy provisions. According to the Extension of Death Benefit Provision, if an insured has left a group but dies within 31 days of leaving the group, no death benefit will be paid.
- 44) In a group life contract legal problems are more likely to occur when the plan is contributory.

**QUESTIONS 45-47 RELATE TO THE MATERIAL IN SECTION IX**

**The following THREE statements pertain to one of the 4 answers provided below which are labeled A, B, C, and D.**

**Your task is to match the appropriate answer to the statement which appears below and to record the answer on your exam answer sheet. Each answer, A, B, C, and D may be used one time, more than one time or not all.**

- A) Reinstatement Provision
- B) Over Insurance Provision
- C) Renewal and Cancellation Provisions
- D) Claims Provision

- 45) If an insured has more than one expense based medical insurance policy, the insurance companies involved will proportionally pay the claim on a reduced basis such that the claim is paid fully only one time.
- 46) There is no coverage for the first 10 days for illness even though the policy is otherwise in force.
- 47) This provision outlines whether or not, and the manner in which, a policy might be terminated by either the insured or the insurance company.

**QUESTIONS 48-50 RELATE TO THE MATERIAL IN SECTION X**

**The following THREE statements pertain to one of the 4 answers provided below which are labeled A, B, C, and D.**

**Your task is to match the appropriate answer to the statement which appears below and to record the answer on your exam answer sheet. Each answer, A, B, C, and D may be used one time, more than one time or not all.**

- A) State Regulation
- B) Federal Regulation
- C) Direct Response Advertisement
- D) Agent and Group Advertising

- 48) The disadvantage is the applicant does not have the ability to discuss the terms of the agreement with an agent.
- 49) A broadcaster's license could be revoked for knowingly airing fraudulent advertising.
- 50) Trade practices specifically prohibited +include rebating, discrimination, unfair claims settlement procedures and false advertising.