



C39 FRAUD AWARENESS AND PREVENTION

IMPORTANT

The time allowed for this exam is 3 hours.

Total marks: 200

You must hand in this paper and any paper used for rough work to the supervisor when you leave the examination room. Failure to do so may result in disqualification.

Section A: Multiple-Choice Questions

Question 1. For the following multiple-choice questions, fill in the circle of the letter that identifies the most correct answer.

Example: (A) (B) ● (D)

<p>DO NOT MARK THE ANSWERS ON THESE PAGES. USE THE FIRST PAGE OF YOUR ANSWER BOOK.</p>
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1. With respect to insurance fraud, a realist believes that
 - (A) insurance companies act unfairly and therefore, deserve fraudulent claims.
 - (B) perpetrators of fraud should not be punished.
 - (C) insurance fraud is acceptable since it commonly occurs.
 - (D) some fraudulent behaviours are justified depending on the circumstances.

2. An insurance claim occurs legitimately, but the insured inflates the amount claimed. This type of fraud is defined as
 - (A) planned fraud.
 - (B) connivance.
 - (C) opportunistic fraud.
 - (D) mens rea.

3. Which of the following could be considered to be a moral hazard?
- (A) A man who leaves his unlocked car running in the driveway
 - (B) A restaurant business experiencing financial difficulties
 - (C) A grocery store that does not enforce its floor sweeping regulations
 - (D) A homeowner who does not shovel her sidewalk
4. An adjuster suspects that a claim is not covered. In order to avoid estoppel, the adjuster should
- (A) report the loss to the Insurance Crime Prevention Bureau.
 - (B) notify the police of his or her suspicions.
 - (C) deny the claim.
 - (D) have the insured sign a non-waiver agreement.
5. At common law, an appraisal as provided under the Statutory Conditions of a policy may be requested
- (A) by the insurer but only before proof of loss has been delivered by the insured.
 - (B) by the insured through a written request.
 - (C) in order to determine whether a loss is covered.
 - (D) only after litigation has been commenced.
6. A civil procedure used to freeze known assets when strong evidence suggests that proceeds of a crime have been converted, is known as
- (A) a trailer.
 - (B) a Mareva injunction.
 - (C) a restraining order.
 - (D) an estoppel.
7. Psychogenic pain syndrome can be described as
- (A) intentional feigning of mental or physical illness to gain insurance money.
 - (B) chronic pain produced by nerve damage.
 - (C) magnification of symptoms with associated inappropriate disability.
 - (D) pain expressed as a physical symptom but arising as a result of emotional problems.
8. The burden of proof in a civil action rests with the
- (A) defendant.
 - (B) Crown.
 - (C) plaintiff.
 - (D) defendant when the matter involves an automobile accident.

9. A burn pattern on a wall in the shape of a vee may suggest
- (A) that chemicals were used to accelerate the fire.
 - (B) the use of gasoline as an accelerant.
 - (C) a normal burn.
 - (D) that an artificial draft condition was created.
10. If an insurer can prove in court that an insured has submitted a proof of loss form containing false statements willfully made
- (A) the insured must submit a revised proof of loss in order to receive the actual amount of loss.
 - (B) the insured would be granted relief from forfeiture.
 - (C) the insurer should succeed in avoiding payment of the entire claim.
 - (D) the insured would be guilty of non-disclosure.
11. At trial, viva voce evidence may be produced. **Viva voce** refers to
- (A) sworn statements written by witnesses.
 - (B) testimony given under oath.
 - (C) physical evidence such as articles or photographs.
 - (D) experts' reports produced in court.
12. The law of privilege governs evidence that is shielded from being produced at trial. Generally, privilege would apply to
- (A) evidence not collected in anticipation of litigation.
 - (B) communication between solicitor and client.
 - (C) correspondence between the insurer and claimant that does not deal with settlement negotiations.
 - (D) documentation produced for the dominant purpose of assessing the amount of an insurance claim.
13. The Insurance Bureau of Canada has produced a Claims Agreement governing the conduct of adjusters. This agreement
- (A) does not apply to telephone adjusters.
 - (B) requires that company adjusters advise third-party claimants of available policy limits.
 - (C) instructs adjusters to carry suitable proof of identity.
 - (D) requires adjusters to provide reasons for denying a third party claim.
14. A link intentionally established to distribute fire from one area to another is called
- (A) a trailer.
 - (B) an inverted vee pattern.
 - (C) branding.
 - (D) an accelerant.

15. Which of the following is a red flag for a claimant's injury claim?
- (A) The injury claimed is serious but out-of-pocket medical expenses were not incurred.
 - (B) A lawsuit is launched within one year of the injury.
 - (C) The claimant was involved in a previous accident.
 - (D) The claimant seeks advance payments to provide interim compensation for wage loss.
16. The term **forensic** means
- (A) used with or connected to a court of law.
 - (B) the study of criminal activity.
 - (C) chemical analysis.
 - (D) evidence of arson.
17. The intentional feigning of mental or physical illness to gain insurance money or avoid returning to work is known as
- (A) factitious illness.
 - (B) symptom magnification syndrome.
 - (C) fibromyalgia.
 - (D) malingering.
18. A statement taken from an insured
- (A) is never admissible in court.
 - (B) should only be written in the presence of the insured.
 - (C) should not be taken at the scene of a loss.
 - (D) is useful even when unsigned.
19. A **reservation of rights** letter
- (A) represents a contractual agreement between the insured and the insurer that the insurer is not waiving its rights.
 - (B) should be used when a non-waiver agreement has not been signed.
 - (C) is binding upon the insured.
 - (D) confirms to the insured that a loss is covered.
20. The Canadian courts have generally held that the relationship between an insurer and insured
- (A) imposes a duty on insurers to place the interests of the insured before its own.
 - (B) is not considered to be a true fiduciary relationship.
 - (C) creates a fiduciary relationship because the insured must act in good faith.
 - (D) is governed solely by the terms of the insurance contract.

21. According to reports produced by the Canadian Coalition Against Fraud, a role of Special Investigation Units is to
- (A) increase public awareness of the magnitude and effects of insurance fraud.
 - (B) assist public law enforcement authorities in the investigation of fraud.
 - (C) assist in the training of underwriting personnel in defensive underwriting.
 - (D) to improve communication and coordination among auto theft investigators.
22. Which of the following is a standing agreement contained in the IBC Claims Agreement?
- (A) Adjusters must provide opposing adjusters with information about an insured's injuries.
 - (B) Adjusters must advise claimants of the liability limits available under the insured's policy.
 - (C) Adjusters must report all cases of fraud to the Insurance Crime Prevention Bureau.
 - (D) Adjusters must provide reasons for denial of a first-party claim.
23. Kinesiology is a multi-disciplinary science that includes the study of
- (A) psychology.
 - (B) physiology.
 - (C) oncology.
 - (D) psychiatry.
24. Somatoform pain disorder refers to
- (A) a self-induced injury.
 - (B) a type of soft tissue injury.
 - (C) an objective complaint of neck and back pain.
 - (D) a pre-occupation with pain in the absence of adequate physical findings.
25. Damages awarded to punish a defendant for oppressive and outrageous behaviour are
- (A) aggravated damages.
 - (B) compensable damages.
 - (C) non-pecuniary damages.
 - (D) exemplary damages.
26. The duty of utmost good faith
- (A) arises out of a fiduciary relationship between the insurer and policyholder.
 - (B) has become a tool that fraudsters have used against the insurance industry.
 - (C) was expanded in **D'Amico v. General Accident Assurance Co. of Canada** to acknowledge an insurer's vulnerable position.
 - (D) only provides protection to the insurer to be fully apprised of the details of a risk.
27. According to media reports, fraud has become more prevalent because of
- (A) a loss of core values in North American culture.
 - (B) a rise in insurance premiums.
 - (C) court decisions that do not recognize fraud.
 - (D) inadequate claims investigations.

28. An act that is against public policy
- (A) is considered to be illegal.
 - (B) is classified as a tort.
 - (C) cannot be considered by the courts of law.
 - (D) is judged by standards that shift with time.
29. The standard of proof required to prove fraud in civil actions
- (A) is "on the balance of probabilities."
 - (B) is "beyond a reasonable doubt."
 - (C) remains the same despite the seriousness of the allegation.
 - (D) is greater than "on the balance of probabilities."
30. The American Coalition Against Insurance Fraud describes the moralist as a person
- (A) with a low tolerance of fraud but one who wants little punishment for the crime.
 - (B) with the least tolerance of fraud.
 - (C) with a very high tolerance for fraud.
 - (D) who wants little or no punishment for perpetrators of fraud.
31. A blank proof of loss form
- (A) must be provided to policyholders 90 days after notice of a loss.
 - (B) can extend the prescription date of a loss depending upon when it is sent by the insurer.
 - (C) when provided by the insurer, represents an admission by the insurer that a valid policy is in force.
 - (D) when provided by the insurer, does not acknowledge that a loss is covered under the policy.
32. Which of the following is a purchase-related indicator of fraudulent vehicle theft claim?
- (A) The vehicle was acquired shortly before the alleged theft.
 - (B) The vehicle title is encumbered by a lien.
 - (C) The vehicle has more than one owner on title.
 - (D) The insured's loan payments are in arrears.
33. The Canadian Coalition Against Insurance Fraud
- (A) provides insurance crime investigation and information services.
 - (B) has an alliance with Crime Stoppers.
 - (C) monitors judicial interpretation of insurance contracts.
 - (D) assists police in solving crimes.
34. The IBC Privacy Guidelines
- (A) must be adhered to by all employees of federally licensed insurance companies.
 - (B) prohibit disclosure to reinsurers of personal information retained by the company.
 - (C) require that insurance personnel reasonably ensure that retained personal information is accurate.
 - (D) permit collection of all available information about policyholders.

35. An initiative to standardize definitions of stolen and recovered vehicles
- (A) is a mandatory program for all automobile insurers.
 - (B) describes salvage vehicles as those that may be sold in the private market.
 - (C) describes stolen vehicles as those that have been reported as stolen to the police.
 - (D) brands rebuilt vehicles as those that have previously been declared as salvage.
36. The voluntary or intentional relinquishment of a known right is called
- (A) deprivation.
 - (B) waiver.
 - (C) estoppel.
 - (D) misappropriation.
37. Which of the following activities would NOT be considered fraud under the Criminal Code of Canada?
- (A) Impersonation
 - (B) Swearing a false proof of loss
 - (C) Criminal breach of trust
 - (D) An act or omission unintentionally resulting in an insurance benefit
38. The decision in **Morton v. Canadian Northern Shield Insurance Co. (British Columbia)**
- (A) dealt with the material change in risk of a house that had been vacated.
 - (B) awarded punitive damages against an insurer for bad faith.
 - (C) affirmed the rights of private citizens whether or not fraud is suspected.
 - (D) outlined the standard of proof of an insurer in its defence of arson.
39. **Estoppel**
- (A) arises as a result of an unreasonable denial of coverage.
 - (B) prevents an insurer from renegeing on its position to cover a claim and subsequently denying coverage for a loss.
 - (C) may only be avoided by obtaining a signed non-waiver from the insured.
 - (D) refers to a breach of a policy condition.
40. Which of the following is an NOT an indicator of staged accidents?
- (A) The accident usually occurs during rush hour.
 - (B) A rental vehicle is involved.
 - (C) The struck vehicle usually has several passengers.
 - (D) No children are involved.

(2 marks each=80 marks)

Section B: Narrative Questions

- Question 2. (a) Define **fraud**. (2 marks)
- (b) **Whiten v. Pilot** is a significant legal decision in which the court awarded punitive damages to the plaintiff. Outline the basis for the award. (8 marks)
- (c) Describe punitive damages and aggravated damages. Fully explain how they differ. (10 marks)
- Question 3. (a) Explain the differences between moral hazard and morale hazard. (5 marks)
- (b) Describe the key elements of a successful defence to an arson claim. (5 marks)
- (c) Describe FIVE (5) strategies that a claim handler should use in order to avoid bad faith lawsuits. (10 marks)
- Question 4. (a) With respect to insurance fraud, what purpose does a property inspection serve? (10 marks)
- (b) A property inspector may encounter location and property inspection red flags. Provide FIVE (5) examples of each. (10 marks)
- Question 5. Outline the changes in a risk that should be considered and reviewed by an insurer upon renewal in order to determine whether the risk has become susceptible to fraud. (20 marks)
- Question 6. Describe the function of the IBC Investigative Services Division, also known as the Insurance Crime Prevention Bureau, in detecting and preventing insurance fraud. (20 marks)

Section C: Application Question

- Question 7. You are a claims adjuster and have been assigned a new property claim, which you suspect involves arson on the part of the insured. Outline the steps that you will take in handling this claim. In your answer describe the investigative tools that you could use to assist with the handling of the claim and proving fraud. (20 marks)

