



## 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.

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### 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 <b>NOT</b> MARK THE ANSWERS ON THESE PAGES. USE THE <b>FIRST PAGE</b> OF YOUR ANSWER BOOK.</p>
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- Which of the following would NOT be considered fraud?
  - Setting fire to your home to receive insurance proceeds
  - Lying on an automobile insurance application about the intended use of the vehicle
  - Stealing office supplies from your employer
  - Bribing a police officer
- Utmost good faith, as it relates to insurance contracts,
  - was expanded in *Carter v. Boehm* (1766) to acknowledge the insurer's vulnerable position.
  - primarily protects an insurer's right to be informed by the insured of all pertinent details of a risk.
  - relates specifically to the handling of claims.
  - prevents insurers from denying fraudulent claims.

3. Which of the following generally would NOT be admissible evidence at trial?
- (A) Videotapes
  - (B) Photographs
  - (C) Electronic evidence
  - (D) Unsworn statements
4. The two classes of evidence at trial are
- (A) direct and indirect.
  - (B) speculative and conclusive.
  - (C) circumstantial and conclusive.
  - (D) direct and circumstantial.
5. Security systems vary according to the complexity of a risk and value of property. The most effective protection systems include
- (A) a night watchman.
  - (B) perimeter protection of walls, doors and windows.
  - (C) monitored alarms.
  - (D) photo electrical cameras.
6. When an insurer voids an insurance policy ab initio, it
- (A) must return the short rate premium to the insured.
  - (B) need not return any of the premium to the insured.
  - (C) must return the pro rata premium to the insured.
  - (D) must return the entire premium to the insured.
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. People who enjoy a high standard of living are
- (A) less likely to commit insurance fraud unless their economic position changes.
  - (B) just as likely to commit insurance fraud as any other policyholder.
  - (C) more likely to commit insurance fraud than any other policyholder.
  - (D) less likely to commit insurance fraud than any other policyholder.

10. Erin files a sworn proof of loss with her insurer for the theft of her bicycle. On the proof of loss she indicates that the bicycle was an expensive racing bike, although the bicycle was actually an inexpensive ten-speed. In order to succeed with a fraud defence, Erin's insurer must prove that
- (A) the amount of money claimed by Erin was a gross exaggeration of her claim.
  - (B) Erin had made fraudulent claims in the past.
  - (C) Erin had a criminal record.
  - (D) Erin had intended to defraud the insurer.
11. In order to avoid potential fraud when underwriting insurance on a commercially-viable building with little or no monetary value, an underwriter should
- (A) include a 100% co-insurance clause with the policy.
  - (B) provide replacement cost coverage with restrictions.
  - (C) exclude coverage for fire.
  - (D) exclude named perils coverage.
12. The value of a building insured for actual cash value may be calculated by considering
- (A) the income that it produces as a rental property.
  - (B) replacement cost minus inflation.
  - (C) any offers to purchase it made prior to a loss.
  - (D) the cost of replacement with new materials.
13. Which of the following is a legal means to prevent a suspected fraudster from disposing of converted assets?
- (A) Waiver
  - (B) Mareva injunction
  - (C) Restraining order
  - (D) Estoppel
14. 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.
15. Which of the following could be considered a moral hazard?
- (A) A new driver without any formal driver training
  - (B) A local restaurant competing with a new neighbourhood fast food franchise
  - (C) A restaurant without a sprinkler system
  - (D) A homeowner without a security system

16. The law of privilege generally, 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.
17. The decision in **Royal Insurance Co. of Canada v. Dimario**
- (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) Is pertinent only in the common law provinces.
  - (D) created precedent with respect to spoliation of evidence.
18. A very competitive insurance market may adversely affect insurers because
- (A) of the changes that affect insurance and the mood of consumers in general.
  - (B) it may encourage greater emphasis on writing the business rather than on assessing its insurability.
  - (C) new businesses or construction in an area may affect an insured's business.
  - (D) regulators tends to creates changes, often raising the standards required of intermediaries.
19. In assessing the fraud risk of a variety store, the underwriter should consider which of the following financial red flags?
- (A) The size of the business
  - (B) The location of the business
  - (C) Public filings against the business
  - (D) Staff turnover
20. Which of the following is contained in the IBC Claims Agreement?
- (A) Adjusters must advise third parties of reasons for denying a claim.
  - (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 report policy violations to the insurer.
21. The Insurance Bureau of Canada Privacy Guidelines
- (A) require that insurers must disclose to a third party, any medical information about that party in its possession.
  - (B) must be adhered to by all general insurers.
  - (C) consider surveillance to be an unauthorized means of collecting information.
  - (D) dictate that insurance personnel do not release personal information that is collected.

22. Which of the following is NOT a premises indicator of property arson fraud?
- (A) The insured business is new.
  - (B) The insured discovers the fire and notifies the authorities.
  - (C) The insured property is in disrepair.
  - (D) The premises are under renovation.
23. An appraisal, as prescribed by statutory conditions, may be conducted
- (A) when coverage is being disputed by the insurer.
  - (B) in the event of disagreement over the value of the insured property.
  - (C) to determine the materiality of a non-disclosure.
  - (D) only after litigation has been commenced.
24. Diamonds should be described in an appraisal according to their cut, carat, colour and
- (A) carbon level.
  - (B) clarity
  - (C) caliber.
  - (D) cadence.
25. The intentional feigning of mental or physical illness to gain insurance money or avoid returning to work is known as
- (A) recanting.
  - (B) symptom magnification syndrome.
  - (C) malingering.
  - (D) Fabrication.
26. A polygraph test
- (A) is inadmissible as evidence in Canadian courts.
  - (B) is considered by psychologists to be a valid means of determining if subjects are telling the truth.
  - (C) attempts to determine if a subject has told a lie.
  - (D) provides an objective measure of the truthfulness of a subject.
27. Surveillance video
- (A) can be used in court to refute a plaintiff's testimony.
  - (B) is only admissible in court with the subject's consent.
  - (C) may not be used as evidence in court.
  - (D) has little significance on a plaintiff's success at trial.

28. Which of the following would be considered an unethical action as outlined in the Insurance Bureau of Canada Claims Agreement?
- (A) An independent adjuster reports his suspicions of a fraudulent claim to the insurer before he is sure of fraud.
  - (B) A staff adjuster advises a passenger in the insured's vehicle of the reasons for denying her claim.
  - (C) Two opposing adjusters handling an automobile claim agree to share the cost of the police report.
  - (D) A staff adjuster does not advise an insured of the right to claim for certain insured losses.
29. Which of the following is a purchase-related indicator of a fraudulent vehicle theft claim?
- (A) The insured does not purchase collision coverage on the vehicle.
  - (B) The vehicle title is encumbered by a lien.
  - (C) The vehicle has more than one owner on title.
  - (D) The lienholder is a private individual.
30. An action for bad faith on the part of an insurer may succeed if the plaintiff can prove
- (A) that the insurer resisted payment of an exaggerated claim.
  - (B) that the insurer failed to consider evidence that contradicted their own.
  - (C) that the insurer did not supply a proof of loss form to the insured as required by the statutory conditions.
  - (D) the insurer's breach of public policy.
31. Which of the following might represent an automobile red flag to an underwriter considering a new risk?
- (A) More than one owner of the vehicle
  - (B) No lien on an expensive vehicle
  - (C) Existing damage on the vehicle
  - (D) The applicant cannot recall the dates of previous claims.
32. Which of the following is NOT a key element of an arson defence?
- (A) Proof of the insured's motive
  - (B) Proof that the fire was set
  - (C) Proof that the insured misrepresented facts on the application for insurance
  - (D) Proof that the insured had an opportunity to set the fire
33. Which of the following is a pre-existing condition, representing an indicator of potential bodily injury fraud?
- (A) Pregnancy
  - (B) A lawsuit is launched within six months of the injury.
  - (C) The claimant has not been involved in a previous accident.
  - (D) The claimant seeks advance payments to provide interim compensation for wage loss.

34. A reservation of rights letter
- (A) must be provided to policyholders 90 days after a claim is denied.
  - (B) can extend the prescription date of a loss depending upon when it is sent by the insurer.
  - (C) is binding on the insured.
  - (D) is a unilateral notice.
35. 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.
36. Which of the following activities must be present in order to meet the definition of fraud under the Criminal Code of Canada?
- (A) Deceit and dishonesty
  - (B) Theft and deceit
  - (C) Criminal breach of trust
  - (D) Deprivation and dishonesty
37. Which of the following is an NOT an indicator of staged accidents?
- (A) The accident occurs on a Sunday afternoon.
  - (B) The driver and passengers are in a vehicle owned by another party.
  - (C) The driver does not claim injury but the passengers do.
  - (D) The accident takes place on a busy thoroughfare.
38. A statement taken from an insured should
- (A) be written in pencil to allow for correction of errors.
  - (B) address any allegations of fraud.
  - (C) not be taken at the scene of a loss.
  - (D) be taken as soon as possible after the event.
39. Study of the principles of human movement describes
- (A) kinesiology.
  - (B) forensics.
  - (C) anatomy.
  - (D) biology.
40. The Canadian Coalition Against Insurance Fraud
- (A) provides insurance crime investigation and information services.
  - (B) promotes public awareness of the effects of insurance fraud.
  - (C) monitors judicial interpretation of insurance contracts.
  - (D) assists police in solving crimes.

(2 marks each = 80 marks)

continued over

## Section B: Narrative Questions

- Question 2. Briefly describe TEN (10) strategies to restrict fraud. (20 marks)
- Question 3. (a) What purpose do applications for insurance serve? How can the use of a signed application discourage fraud? (5 marks)
- (b) Describe how the confidentiality of the information provided to an insurance intermediary is protected. (5 marks)
- (c) Describe the concerns an underwriter would have when insuring an expensive piece of diamond jewelry. What are the benefits and risks to the insurer in providing coverage on a floater policy basis? (10 marks)
- Question 4. Discuss how fraudulent claims arise on liability policies. Mention the unique characteristics associated with liability claims. Use examples to support your answer. (20 marks)
- Question 5. (a) Discuss the importance of a broker documenting dealings with a client. (5 marks)
- (b) What effect does the economy have on the risk of insurance fraud? (6 marks)
- (c) How have consumers changed and what effect has this had on brokers and agents? (4 marks)
- (d) When an insured requests an increase in coverage, what red question should be raised by the underwriter? (5 marks)
- Question 6. (a) What type of provisions associated with no-fault benefits might encourage a person to commit Accident Benefits fraud? (5 marks)
- (b) What are the advantages to an insurer of establishing an in-house Special Investigative Unit? (5 marks)
- (c) Briefly describe FIVE (5) roles of a Special Investigative Unit. (10 marks)

## Section C: Application Question

- Question 7. (a) You are a broker and have been provided with information on a prospective new client. Explain the strategies you may employ in your initial contact to assist in the prevention and control of insurance fraud. (16 marks)
- (b) Alice and her husband have homeowner's insurance on their house along with a scheduled articles floater that covers Alice's wedding and engagement rings along with an expensive pair of sapphire earrings that were given to Alice by her sister. The earrings were appraised for the purposes of insurance and were given a value of \$9500, which was set as the limit of coverage for the earrings. Two months after inception of the policy, Alice filed a claim with her insurer, claiming that the earrings were lost on a recent vacation in Mexico. What red flags might be triggered in your mind if you were the adjuster handling this claim? (4 marks)

