

LLQP Ethics and Professional Practice (Common Law) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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- 1. What is defined as defamation in the insurance industry?**
 - A. Speaking positively about competitors**
 - B. Making factual statements about policies**
 - C. Speaking badly about other insurance companies**
 - D. Providing reviews of client experiences**
- 2. What principle is most affected by the requirement to provide non-misleading information to customers?**
 - A. Consumer protection**
 - B. Agent commission structures**
 - C. Product competitiveness**
 - D. Market expansion**
- 3. What is the meaning of common law?**
 - A. No marriage contract**
 - B. Law based on statutes**
 - C. Law based on judicial decisions**
 - D. Law established by custom**
- 4. What must an insurance professional disclose when there's a potential conflict of interest?**
 - A. The nature of the conflict, allowing the client to make informed decisions**
 - B. The potential financial gain for the professional**
 - C. The history of previous client dealings**
 - D. The opinions of other professionals in the field**
- 5. Why is transparency important for insurance advisors?**
 - A. It allows them to increase commission rates**
 - B. It builds trust with clients and ensures informed decisions**
 - C. It simplifies the sales process**
 - D. It satisfies regulatory requirements only**

- 6. Under which circumstance might an insurer legally deny a claim?**
- A. Policy is still in effect**
 - B. Claims not made within time limit**
 - C. Claim is for a covered event**
 - D. Claim submitted with required documents**
- 7. Which of the following statements about legal capacity in insurance contracts is true?**
- A. Anyone can enter into a contract**
 - B. Only adults can enter into contracts**
 - C. Minors may enter into contracts without restrictions**
 - D. Legal capacity is irrelevant to contracts**
- 8. What term refers to the new owner of the policy after the insured's death?**
- A. Contingent beneficiary**
 - B. Successor policyholder**
 - C. Assigned policyholder**
 - D. Policy executor**
- 9. What is a key reason for having an insurance contract established?**
- A. To avoid statutory regulations**
 - B. To define the rights and obligations of the parties involved**
 - C. To increase competitiveness in the market**
 - D. To minimize policyholder involvement**
- 10. What action should be taken if a client expresses false information in an application?**
- A. Ignore the statement and process the application**
 - B. Advise the client of the implications and rectify the application**
 - C. Report the client to authorities immediately**
 - D. Request a new application without further discussion**

Answers

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

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Explanations

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1. What is defined as defamation in the insurance industry?

- A. Speaking positively about competitors**
- B. Making factual statements about policies**
- C. Speaking badly about other insurance companies**
- D. Providing reviews of client experiences**

Defamation in the insurance industry refers to the act of making false or misleading statements about another individual or organization that can damage their reputation. This definition aligns with the concept of unfair competition and unethical practices. Choosing to speak badly about other insurance companies could lead to wrongful assumptions about their services or reliability, which is a clear form of defamation when such statements are not backed by factual evidence. In contrast, the other options focus on positive communication or factual statements that do not harm the reputation of others. Speaking positively about competitors does not involve defamation since it does not damage their image. Making factual statements about policies contributes to transparency and understanding rather than harming another party. Providing reviews of client experiences, when based on truth, fosters a healthy discourse about services rather than disparaging other companies. Thus, the option that describes speaking badly about other insurance companies captures the essence of defamation accurately.

2. What principle is most affected by the requirement to provide non-misleading information to customers?

- A. Consumer protection**
- B. Agent commission structures**
- C. Product competitiveness**
- D. Market expansion**

The principle most affected by the requirement to provide non-misleading information to customers is consumer protection. This principle is founded on the ethical obligation that financial professionals have to ensure that clients are fully informed and able to make educated decisions regarding their investments and insurance products. Providing accurate and honest information is essential for building trust between the client and the professional, as well as safeguarding the interests of the consumer. When clients receive misleading information, it can lead to inappropriate decisions that may harm their financial well-being. Thus, the requirement to give non-misleading information is a core component of consumer protection, which aims to create a fair marketplace. Other options like agent commission structures, product competitiveness, and market expansion, while important in their own contexts, do not directly address the ethical imperative to ensure clients receive truthful and clear information. Instead, these areas may be impacted by broader regulatory practices or market dynamics, but the priority of consumer protection concerns making sure that customers are not deceived or misled in their transactions.

3. What is the meaning of common law?

- A. No marriage contract**
- B. Law based on statutes**
- C. Law based on judicial decisions**
- D. Law established by custom**

The concept of common law primarily refers to a legal system formed by the cumulative body of judicial decisions and precedents rather than solely statutes or regulations. It evolves through court rulings that interpret and apply the law to individual cases, establishing precedents that inform future decisions. This foundational aspect of common law allows it to adapt and grow over time, as judges draw upon previous cases to guide their rulings. The flexibility inherent in common law means it can accommodate changes in societal values and changes in context that legislative bodies may not address as swiftly. Options that suggest other meanings—such as a marriage contract, law based strictly on statutes, or law established solely by custom—do not encapsulate the essence of common law. While statutes can exist within a common law system, common law specifically derives from judges' interpretations and decisions rather than written laws enacted by legislatures. Thus, the fundamental nature of common law as defined by judicial decisions is a crucial aspect of understanding its significance in the legal framework.

4. What must an insurance professional disclose when there's a potential conflict of interest?

- A. The nature of the conflict, allowing the client to make informed decisions**
- B. The potential financial gain for the professional**
- C. The history of previous client dealings**
- D. The opinions of other professionals in the field**

An insurance professional is obligated to disclose the nature of any potential conflict of interest to ensure transparency and enable the client to make informed decisions. This principle is rooted in ethical practice and is fundamental to maintaining trust in the client-professional relationship. By clearly articulating the nature of the conflict, the professional empowers the client to understand how their advice or recommendations may be influenced by the potential conflict, thereby reinforcing the client's autonomy in decision-making. This approach prioritizes the client's right to be informed and ensures that they can assess whether they wish to proceed with the advice given, seek further information, or consider alternative options. Transparency in revealing conflicts of interest aligns with ethical standards set forth in the insurance and financial services industries, which emphasize the importance of professional integrity and accountability.

5. Why is transparency important for insurance advisors?

- A. It allows them to increase commission rates**
- B. It builds trust with clients and ensures informed decisions**
- C. It simplifies the sales process**
- D. It satisfies regulatory requirements only**

Transparency is crucial for insurance advisors because it significantly fosters trust between the advisor and their clients. When advisors provide clear and honest information about products, services, fees, and potential risks, clients are better able to make informed decisions regarding their insurance needs. This relationship of trust can lead to long-term client retention and satisfaction, as clients feel they can rely on their advisor for accurate advice and support. Moreover, transparency also helps to mitigate misunderstandings and potential disputes. By openly sharing information and explaining terms and conditions, advisors can ensure that clients fully understand what they are purchasing, which is essential in a complex field like insurance. Although there are aspects such as regulatory requirements or simplified processes that may touch on transparency, the core benefit lies in building a trustworthy relationship with clients. Thus, the focus on informed decision-making underscores the importance of ethics in the insurance industry.

6. Under which circumstance might an insurer legally deny a claim?

- A. Policy is still in effect**
- B. Claims not made within time limit**
- C. Claim is for a covered event**
- D. Claim submitted with required documents**

An insurer can legally deny a claim if the claim is not made within the specified time limit set forth in the insurance policy. Most insurance policies include provisions that require claims to be reported within a certain timeframe after the occurrence of an event. This stipulation is in place to ensure that claims are evaluated while the details are still fresh and relevant evidence can be gathered. If a policyholder fails to adhere to this time limit, regardless of the validity of the claim itself, the insurer has the right to deny it based on this contractual obligation. This principle emphasizes the importance of both the policy terms and timely communication following an incident, allowing insurers to manage risks effectively.

7. Which of the following statements about legal capacity in insurance contracts is true?

- A. Anyone can enter into a contract**
- B. Only adults can enter into contracts**
- C. Minors may enter into contracts without restrictions**
- D. Legal capacity is irrelevant to contracts**

The statement that only adults can enter into contracts is accurate because, in legal terms, individuals must have the requisite capacity to understand the nature and consequences of the contract they are entering. Generally, this means that only persons who have reached the age of majority, which is typically 18 years old in many jurisdictions, are considered capable of creating binding contracts. This ensures that the parties involved can adequately understand the legal commitments they are making. In contrast, minors can enter into contracts, but these contracts are often subject to restrictions and may be voidable at the minor's discretion, which does not allow for unrestricted engagement in contractual agreements. Additionally, stating that anyone can enter into a contract fails to take into account the necessity of legal capacity, which pertains to an individual's ability to understand the contract. As a result, legal capacity is indeed a crucial consideration in the formation of valid contracts.

8. What term refers to the new owner of the policy after the insured's death?

- A. Contingent beneficiary**
- B. Successor policyholder**
- C. Assigned policyholder**
- D. Policy executor**

The term "successor policyholder" refers to the new owner of the policy after the insured's death. In life insurance and related policies, the ownership rights typically transfer to a designated individual or entity upon the passing of the insured. This designated individual or entity is considered the successor policyholder. Understanding this concept is crucial in the context of property rights and beneficiary designations, as it ensures that the intended individual or entity can manage the policy after the original owner's death. The successor policyholder takes over all rights and responsibilities associated with the policy, including the ability to make changes, access funds, and continue the policy's benefits. The other terms do not accurately describe this relationship. A contingent beneficiary refers to a secondary beneficiary who will receive benefits only if the primary beneficiary cannot. An assigned policyholder typically pertains to someone to whom the policy's benefits or ownership have been assigned during the insured's lifetime and does not necessarily transfer ownership after death. A policy executor generally refers to an individual responsible for executing the terms of a will or handling the estate, not specifically regarding ownership of an insurance policy following the insured's death.

9. What is a key reason for having an insurance contract established?

- A. To avoid statutory regulations**
- B. To define the rights and obligations of the parties involved**
- C. To increase competitiveness in the market**
- D. To minimize policyholder involvement**

Establishing an insurance contract is essential primarily because it clearly defines the rights and obligations of the parties involved—namely, the insurer and the insured. This definition is crucial for establishing mutual understanding and expectations regarding coverage, premiums, claims processes, and the responsibilities of each party. By having these terms laid out explicitly, it minimizes the potential for disputes and misunderstandings, ensuring that both the insurer and insured know what is expected of them throughout the term of the policy. The other choices do not capture the fundamental purpose of an insurance contract. Avoiding statutory regulations is not a legitimate reason for having a contract, as insurance is heavily regulated to protect policyholders. While competitiveness in the market can be influenced by the types of policies offered, it does not directly relate to the primary function of an insurance contract. Lastly, minimizing policyholder involvement runs counter to the essence of an insurance contract, which requires active participation from both parties to ensure adequate coverage and understanding of the policy terms.

10. What action should be taken if a client expresses false information in an application?

- A. Ignore the statement and process the application**
- B. Advise the client of the implications and rectify the application**
- C. Report the client to authorities immediately**
- D. Request a new application without further discussion**

When a client expresses false information in an application, the appropriate action is to advise the client of the implications and rectify the application. This choice is vital because it upholds ethical standards and ensures that the insurance company can make informed decisions based on accurate information. By addressing the situation directly with the client, you not only help them understand the seriousness of providing false information, but you also provide them an opportunity to correct any mistakes or misunderstandings. This approach promotes transparency and maintains the integrity of the application process. It reflects a commitment to ethical practices, reinforcing the importance of honesty in the industry, which can ultimately protect both the client's and the insurer's interests. Choosing to ignore the false statement compromises ethical standards and could lead to more significant issues down the line if the inaccuracies are discovered later. Reporting the client immediately to authorities or requesting a new application without further discussion may not be appropriate initial responses, as they do not allow for clarification or correction of the misinformation, nor do they align with professional practice that prioritizes client communication and understanding.