

# LIVING BENEFITS CERTIFICATION



## Module 3 Workbook

### *INTRODUCTION TO BUSINESS INCOME PROTECTION*

RBC Life Insurance Company



RBC Insurance®



## Module #3: Business Income Protection

### Introduction

This workbook is designed to let you test your knowledge of the study material contained in Module 3 (Business Applications) of the Living Benefits Certification program. Once you have completed the workbook, RBC Insurance® will grade it and communicate your mark. If you achieve a mark of 75% or greater, you will be issued continuing education credits.

The following reference materials will assist you in completing this workbook:

- ▶ **Underwriting Guidelines** booklet (12/04) - Forms: [English 83276](#) / [French 83277](#)
- ▶ **Occupation Schedule** [booklet \(06/05\)](#), and
- ▶ **Individual Product Portfolio** brochure (05/07) - Forms: [English 83236](#) / [French 83237](#).

If you have any questions or require more information, please do not hesitate to contact your local RBC Insurance sales office at 1-866-235-4332 or visit us online at: [www.rbcinsurance.com/salesresourcecentre](http://www.rbcinsurance.com/salesresourcecentre) .

#### Directions:

- ▶ Please complete each exercise or activity as directed
- ▶ Refer to the reference materials if necessary to check the accuracy of your responses.
- ▶ Return your completed workbook to RBC Insurance via email at [producerlicensing@rbc.com](mailto:producerlicensing@rbc.com) or by mail to:  
Licensing  
RBC Insurance  
6880 Financial Drive, Tower 1, 7<sup>th</sup> Floor  
Mississauga, ON, L5N 7Y5

### Producer Information (print clearly)

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## Module #3: Business Income Protection

### Exercise # 1

Ⓞ Check only one multiple choice answers for the following question(s).

1. Which business need(s) do the RBC Insurance policies introduced in this chapter meet?
  - A. Reimbursing business overhead expenses when the owner is disabled.
  - B. Transferring the ownership of a business when a co-owner becomes disabled.
  - C. Protecting a business against loss of revenue resulting from the disability of a key employee.
  - D. All of the above
  
2. Whose needs are the prime target for the RBC Insurance business insurance policies introduced in this chapter?
  - A. Employees
  - B. Stockholders
  - C. Families of the employees
  - D. Owner or owners
  
3. Which phrase(s) below best describes business owner need(s) that the Preferred Business Overhead Expense is designed to meet?
  - A. Reimburse business expenses while a business owner is either partially or totally disabled.
  - B. Cover losses in revenue due to the disability of an essential employee.
  - C. Serve as personal disability insurance for a business owner.
  - D. All of the above.
  
4. Which phrase(s) below best describes the business owner need that the Disability Buy Sell policy is designed to meet?
  - A. To take the place of a buy sell agreement between partners in a business or professional practice.
  - B. To provide money for the transfer of ownership of a business when a partner becomes totally disabled.
  - C. To provide protection for the business by reimbursing business expenses while a business owner is either partially or totally disabled.
  - D. All of the above.
  
5. Which phrase below best describes the business owner need that the Key Person policy is designed to meet?
  - A. To serve as personal disability insurance for employees with unique talents and/or skills.
  - B. To protect the business owner against the loss of revenue resulting from the disability of a key employee.
  - C. To protect a business by providing money for the transfer of ownership when a partner becomes totally disabled.
  - D. To protect the business by providing funds to cover overhead expenses when an owner becomes disabled.



## Module #3: Business Income Protection

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6. Which phrase best describes the business owner need that the Business Loan Protector policy is designed to meet?
- A. To reimburse business expenses while a business owner is totally disabled.
  - B. To provide money for the transfer of ownership of a business when a partner becomes totally disabled.
  - C. To make funds available to pay outstanding business loans when the business owner becomes totally disabled.
  - D. None of the above.

### Exercise #2 - Preferred Business Overhead Expense policy

Ⓒ **Check only one multiple choice answers for the following question(s).**

1. The purpose of the Preferred Business Overhead Expense (BOE) policy is:
- A. an expense reimbursement policy that covers those fixed monthly business overhead expenses required to keep the business viable until the return of the partially or totally disabled owner.
  - B. an expense reimbursement policy that covers the salary and bonus of the business owner while they are partially or totally disabled.
  - C. an expense reimbursement policy that covers the cost of travel, entertainment and additions to inventory while the owner is partially or totally disabled.
  - D. None of the above.
2. The market for this product is:
- A. Principals of publicly held corporations.
  - B. Employees of closely held businesses or practices.
  - C. Principals of closely held businesses or practices and owners of small businesses.
  - D. All of the above.
3. The underwriting guidelines for the BOE are best described as:
- A. for occupation classes 4A, 3A, 2A and A.
  - B. for issue ages 18-60
  - C. has a benefit period of 15 or 24 months
  - D. All of the above.
4. The built in benefits for the BOE policy are:
- A. accumulation of benefit, extension of benefits, presumptive total disability and exchange privilege.
  - B. residual disability benefit and health care profession benefit
  - C. survivor benefit, recurrent disability, accumulation of days, waiver of premium.
  - D. both A and C
  - E. None of the above



## Module #3: Business Income Protection

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5. The optional benefits for the BOE policy may include:

- A. Future Covered Monthly Expense Option Benefit - FCEO
- B. health care professional benefit
- C. survivor benefit
- D. both A and B
- E. None of the above

### Exercise #3 - Disability Buy Sell Policy

Ⓞ **Check only one multiple choice answers for the following question(s).**

1. The purpose of the disability buy sell policy is:

- A. to ensure that a disabled owner in a business receives maximum value buyout for his/her portion of their business.
- B. to ensure that, in the event of one owner's disability, a business will remain in the control of the other owner(s) and that the buy sell transaction will be an equitable one for all involved.
- C. to fund a business expansion during one partner's disability period.
- D. All of the above.

2. The market for this product is:

- A. partnerships and professional corporations comprised of two to five principals.
- B. corporations and partnerships with six to ten principals
- C. partnerships and closely-held corporations that employ less than 50 people
- D. partnerships and closely-held corporations that have up to \$10 million in annual sales and are in stable industries
- E. All of the above

3. The underwriting guidelines for the Buy Sell are best described as:

- A. for occupation classes 4A, 3A, 2A, A and B.
- B. for issue ages 18-60
- C. offering elimination periods of 360, 540 or 720 days
- D. both B and C
- E. All of the above

4. The payout options for the Buy Sell policy are:

- A. bi-annual payments
- B. bi-monthly installments and flexible funding
- C. level monthly installments and flexible funding
- D. All of the above



## Module #3: Business Income Protection

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5. The built in benefits for the Buy Sell policy are:

- A. buy-out expense benefit
- B. legal/accounting fee benefit
- C. accumulation of days
- D. waiver of premium
- E. conversion privilege
- F. All of the above
- G. A, B, C & D only

6. The optional benefits for the buy sell policy may include:

- A. business insurance option
- B. health care professional benefit
- C. survivor benefit
- D. All of the above

### Exercise #4 - Key Person Protector Policy

Ⓒ **Check only one multiple choice answers for the following question(s).**

1. The purpose of the key person protector policy is:

- A. to pay benefits to the employer (policy owner) to help offset loss of revenue due to the disability of a key person.
- B. to reimburse a business for expenses incurred in searching for and replacing a disabled key employee.
- C. to provide coverage for a financial loss to an employer due to the disability of a key person.
- D. All of the above.

2. One market for this product is:

- A. Entertainment industry.
- B. New business ventures
- C. Super-salespersons
- D. Family owned business with all family member staff

3. The underwriting guidelines for the key person protector policy are:

- A. The insured (key person) must have been in his/her present occupation for at least one year and have an annual earned salary of at least \$30,000. The total disability benefit should not exceed 1/12 of the insured's annual salary.
- B. The applicant/key person must have individual disability insurance, group LTD, or association coverage in force.



## Module #3: Business Income Protection

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- C. The key person should not be a sole proprietor and cannot own more than 50% of the business. Husband/wife combinations are not acceptable. Large corporations with many employees and very large profits do not qualify.
- D. All of the above

4. Some of the built in benefits for the key person policy are:

- A. buy-out expense benefit and legal/accounting fee benefit
- B. proof of loss benefit and replacement expense benefit
- C. extension of benefits
- D. conversion privilege and health care professional benefit

### Exercise #5 - Business Loan Protector Policy

☉ **Check only one multiple choice answers for the following question(s).**

1. The purpose of the Business Loan Protector Policy is:

- A. to make funds available to pay outstanding business loans and loan interest when the buy sell policy is activated.
- B. to pay benefits to the employer (policy owner) to help offset loss of revenue due to the disability of a key person.
- C. to make funds available to pay outstanding business loans and loan interest when the business owner becomes totally disabled.
- D. All of the above.

 **Write your response in the space provided.**

2. Relating to the business loan protector policy, please answer the following questions as true or false:

- A. \_\_\_\_\_ Periodic Pay refers to: Monthly benefits based on the monthly scheduled repayment associated with the loan(s), up to the maximum monthly benefit.
- B. \_\_\_\_\_ The lump sum benefit is equal to 100% of the actual business loan outstanding at the time of claim.

3. True or False, the following are examples of eligible loans under the Business Loan Protector policy:

- A. \_\_\_\_\_ loans for equipment, property and buildings used for the sole purpose of operating a business.
- B. \_\_\_\_\_ investment loans, share purchase and personal property mortgage protection.



## Module #3: Business Income Protection

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### 4. True or False:

- A. \_\_\_\_\_ Extension of Benefits, Presumptive Total Disability and Accumulation of Days *only* apply to lump sum policies.
- B. \_\_\_\_\_ Recurrent Disability and Waiver of Premium are Built-in benefits for *both* Periodic Pay and Lump Sum Business Loan Protector policies

### Exercise #6 – Chapter 2 Review

Ⓒ Check only one multiple choice answers for the following question(s).

1. Which of the following occupations is not qualified for the BOE policy?

- A. Actuaries
- B. Architects
- C. Farmers
- D. Veterinarians

2. When a business owns and receives the benefits of the *Disability Buy Sell* policy it is known as a/an:

- A. Entity purchase
- B. Cross-purchase
- C. Business purchase
- D. Funded purchase

3. When a business owner purchases the Disability Buy Sell policy on the other owners, it is known as a/an:

- A. Entity purchase
- B. Cross-purchase
- C. Business purchase
- D. Funded purchase

4. A business owner requiring an initial lump sum benefit with remaining benefits paid in equal monthly amounts over a maximum of 10 years, would select which kind of funding method?

- A. Monthly payment
- B. Flex Funding
- C. Quarterly installment payments

5. To qualify as a key person, an individual must:

- A. Be an owner of the business.
- B. Have unique talents and skills.
- C. Command the highest salary in the business.
- D. All of the above.





## Module #3: Business Income Protection

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6. Under the Key Person Protector policy:

- A. The contract is owned by the employer and payable to the insured.
- B. Bills for replacement costs are sent directly to RBC Insurance which pays them.
- C. The business has to have been in existence at least one year.
- D. None of the above.

### Exercise #7 – Three Ways to Own a Business

 *Write your response in the space provided.*

1. Match the following terms with their definitions below:

- A. Sole Proprietorships
- B. Partnerships
- C. Corporations

- 1.1 a separate legal and tax entity that exists apart from the people involved in its operation and management.
- 1.2 a business owned entirely by one person.
- 1.3 a business owned by two or more people. Profits and losses are usually divided between the two or more people in accordance with their ownership in the business.

### Exercise #8 – Three Types of Corporations

 *Write your response in the space provided.*

1. Match the following terms with their definitions below:

- A. Public Traded Corporations
- B. Closely-held Corporations
- C. Professional Corporations

- 1.1 Ownership of these corporations is generally limited to a small number of shareholders who are actively involved in managing the business
- 1.2 These corporations are made up of persons who must obtain a license from the Province in order to practice. Generally, the stockholders must practice the same line of work.
- 1.3 Owners in these types of corporations may number in the thousands, and while they have the right to vote for members of the board of directors, there is rarely any connection between the shareholders and the officers who actively manage the company.



### Exercise #9 – Chapter 3 Review

☉ **Check only one multiple choice answers for the following question(s).**

1. The simplest form of ownership in which a business is owned by one person is a:

- A. Corporation.
- B. Partnership.
- C. Firm.
- D. Sole proprietorship.

2. A separate legal and tax entity created by investors to own and operate a business is a:

- A. Corporation.
- B. Company.
- C. Sole proprietorship.
- D. Partnership.

3. A business owned by two or more people is a:

- A. Company.
- B. Sole proprietorship.
- C. Partnership.
- D. Corporation.

4. A closely-held corporation is a corporation:

- A. Whose ownership is limited to a small number of shareholders that are actively involved in managing the business?
- B. Whose shares are traded on financial exchanges?
- C. Made up of only of stockholders who are licensed professionals generally practicing the same profession.
- D. None of the above.

5. Which of the following would rule out a business as a prospect for the Preferred Business Overhead Expense policy?

- A. They are a five-year-old architectural firm with three partners, but they have no written buy sell agreement.
- B. It is an old law firm with over ten partners.
- C. They are an established CA firm with three partners.
- D. It is a veterinary practice that is a sole proprietorship with three employees in addition to the owner (a veterinarian) - two technicians and a receptionist.



## Module #3: Business Income Protection

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6. Which of the following would rule out a business as a prospect for the Disability Buy Sell policy?

- A. They are a five-year-old architectural firm with three partners, but they have no written buy-out agreement.
- B. They are an established CA firm with three partners.
- C. It is a veterinary practice that is a partnership with five employees—two veterinarians (the owners), two technicians and a receptionist.
- D. They are a newly organized law firm with three partners who met for the first time a year-and-a-half ago at a conference on corporate law.

7. Which of the following would be an eligible prospect for the Key Person Protector policy?

- A. A two-year-old architectural firm with three partners, who employ a structural engineer who has been their “secret weapon” in winning contracts to design new school buildings throughout the region.
- B. An established real estate firm with a sales person who is known throughout the city for her ability. She brought in about 45% of the firm’s total revenue last year.
- C. A veterinary practice that is a sole proprietorship with two other veterinarians in addition to the owner. The sole proprietor is a vet specialist in animal eye surgery whose skills have built a province-wide reputation for the practice and have been responsible for nearly half of their revenues.
- D. A newly established software company with a 22-year-old programmer who was responsible for the company’s best selling product and is in the process of developing an even better version.

8. Which of the following would be a suitable candidate for the Business Loan Protector policy?

- A. They are a two-year-old architectural firm with three partners.
- B. It is a newly formed law firm with four partners.
- C. They are an established CA firm with three partners.
- D. A clothing business, formed four years ago with a net worth of \$40,000.

**REMEMBER:**

If you have finished Module 3, please return the completed workbook to the address noted on page 1 so that we can grade your answers.



### Module #3: Business Income Protection

The following Project is for practice purposes only. You should NOT submit the following section of the workbook to be marked.

#### Project #1 – Selecting Prospects Project

Write your response in the space provided.

- Below are worksheets for planning to select and work with prospects in the business income protection market. Use these worksheets to list existing clients or prospective clients who satisfy the target client criteria in each section.

Select Prospects – Responsive to New Ideas	
A. List your clients/prospects who have been most <u>responsive to new ideas</u> and may find the most value in expanding their relationship with you and RBC Insurance products.	
1.	6.
2.	7.
3.	8.
4.	9.
5.	10.

Select Prospects – Small Business Market	
B. List your clients / prospects who are self-employed in small business markets where they could have the opportunity to buy business overhead, buy sell, key person and/or business loan coverage.	
1.	6.
2.	7.
3.	8.
4.	9.
5.	10.

- Create a marketing / sales plan to approach each of these prospects to inform them of the possibilities of business income protection and book a meeting to discuss their needs to identify coverage that best suits their needs. For more sales ideas, contact your local RBC Insurance sales representative.

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