**Insurance & Risk Management - 2016 SLC**

1)  Examples of physical hazards include:

A) dishonest employee

B) oily rags and a gas leak

C) a building fire

D) building fire, oily rags, and a dishonest employee

2)  Which approach is **not** used by risk managers to identify and evaluate risks?

A) contract analysis

B) on-site inspections

C) financial discrimination

D) risk mapping

3)  A pure risk:

A) is uninsurable

B) offers no opportunity for gain

C) is uncontrollable

D) offers opportunity for gain

4)  \_\_\_\_\_\_\_\_\_\_ is the likelihood that an event will occur.

A) Peril

B) Probability

C) Risk

D) Hazard

5)  A peril is:

A) the probability that a loss will occur

B) the cause of a loss

C) a moral hazard

D) a condition which increases the chance of a loss

6)  Taylor Tobacco Company is concerned that the company may be held liable in a court of law and forced to pay a large damage award. The characteristics of the judicial system that increase the frequency and severity of losses is known as:

A) moral hazard

B) legal hazard

C) speculative risk

D) particular risk

7)  Insurance authors have traditionally defined risk as:

A) the probability of a loss occurring

B) any situation in which the probability of loss is one

C) uncertainty concerning the occurrence of loss

D) any situation in which the probability of loss is zero

8)  This is the theory of probability that is the basis for insurance, and which states that the larger the number of exposure units, the more closely the actual results obtained will approach the probable results expected.

A) law of large numbers

B) principle of insurable interest

C) principle of indemnity

D) principle of subrogation

9)  A pure risk is defined as a situation in which there is:

A) a possibility of either profit or loss

B) only the possibility of profit

C) only the possibility of loss or no loss

D) a possibility of neither profit nor loss

10)  LMN Mutual Insurance Company has total liabilities of $300 million. The company has total assets of $380 million. What is LMN's policyholders' surplus?

A) $340 million

B) -$80 million

C) $80 million

D) $680 million

11)  Which one of the following is a controllable risk?

A) loss from theft

B) a lightning strike

C) a sudden hailstorm

D) a flash flood

12)  When an individual or business assumes the total risk of economic loss, the type of insurance is:

A) self-insurance

B) coinsurance

C) property insurance

D) liability insurance

13)  Loss severity is defined as the:

A) probable number of losses which may occur during some period

B) probability that a liability judgment may exceed a firm's net worth

C) probable size of the losses which may occur during some period

D) probability that any particular piece of property may be totally destroyed

14)  Loss frequency is defined as the:

A) probable number of losses that may occur during some period

B) probable size of the losses that may occur during some period

C) probability that a liability judgment may exceed a firm's net worth

D) probability that any particular piece of property may be totally destroyed

15)  One item that appears on an insurance company's financial statements is a liability that represents an estimate of the claims reported and adjusted but not yet paid, claims reported and filed but not yet adjusted, and claims incurred but not yet reported to the company. This liability is called the insurers:

A) admitted assets

B) net income

C) unearned premium reserve

D) loss reserve

16)  Which one of the following is a result of adverse selection?

A) Those persons who are most likely to have losses are also the most likely to seek insurance at standard rates.

B) The insurer's financial results will be substantially improved.

C) It is unnecessary for the insurance company to use underwriting.

D) Insurance can be written only by the federal government.

17)  Which one of the following types of loss exposures are best met by the use of avoidance?

A) low-frequency - low-severity

B) high-frequency - high-severity

C) high-frequency - low-severity

D) low-frequency - high-severity

18)  A person suing you and possibly winning a large judgment against you is an example of:

A) risk of financial loss

B) personal risk

C) risk of financial resources

D) systemic risk

19)  The worst loss that is likely to happen is referred to as the:

A) frequency of loss

B) maximum probable loss

C) maximum possible loss

D) severity of loss

20)  Which one of the following statements about stock insurers is **true**?

A) They are not permitted to write property and liability insurance.

B) They are owned by their policy owners who participate in profits but not in losses.

C) Stockholders bear any losses and share in any profits.

D) They issue assessable policies.

21)  Property insurance will pay for a loss:

A) if the loss is less than the policy limit

B) if the owner of the property is the insured

C) without regard to fault

D) if the peril is covered

22)  The best way to protect a small child in an automobile is:

A) to place the child in a special car seat next to the driver

B) to let the child ride in the parent's lap

C) to place the child in a special car seat in the back seat of the car

D) to let the child ride in the back seat of the car

23)  The most important factor in an insurance company's decision on the price you pay for homeowners insurance is:

A) value of property insured

B) construction of a building

C) estimated danger of loss based on insurance company's past experience

D) type of policy

24)  Which one of Ken's Personal Auto Policy (PAP) coverage’s will cover the other driver's medical expenses?

A) medical payments coverage

B) collision coverage

C) bodily injury liability

D) property damage liability

25)  Which one of the following would be classified as personal property?

A) hedges

B) garage door openers

C) woodsheds

D) snowmobiles

26)  This form amends a property-liability insurance policy that reflects any changes to the standard policy.

A) definitions

B) endorsement

C) conditions

D) agreement

27)  Coverage that protects policyholders from claims or judgments made against them resulting from their personal activities other than ownership, maintenance, or use of automobiles is:

A) personal auto insurance

B) personal liability insurance

C) personal property insurance

D) worker's compensation insurance

28)  Term insurance contracts generally do **not** have:

A) cash values

B) the option to convert the policy to another form of insurance

C) lower premiums than other forms of insurance

D) a clearly defined termination date

29)  Most Americans buy an auto insurance policy designed for personal use of a private passenger vehicle usually called:

A) Personal Injury Protection

B) Uninsured/underinsured motorist coverage

C) Personal Liability Policy

D) Personal Auto Policy

30)  Insurance that protects a car owner against financial loss resulting from a wreck or rollover is called:

A) collision coverage

B) underinsured motorist coverage

C) comprehensive coverage

D) deductible coverage

31)  With an assigned-risk plan:

A) low-risk drivers are assigned high-risk drivers to tutor in good driving practices

B) the insured pay much lower premiums than in other types of plans

C) even high-risk drivers are able to obtain at least some automobile insurance

D) insurance companies can refuse to sell insurance to all high-risk drivers

32)  This type of auto insurance coverage pays for physical injuries sustained by the insured and passengers in the insured's auto.

A) medical payments

B) comprehensive

C) transportation expense

D) liability

33)  Lauren’s insurance company increases standard premiums by 12 percent if a car is usually driven more than 20,000 miles a year. If Lauren’s standard premium normally would be $940, how much would she pay with the high-mileage increase?

A) $1,052.80 B) $112.80 C) $1,112.80 D) $1,000

34)  Maxine’s hands hurt so badly from typing that she could hardly move her thumbs. The workers’ compensation insurer did not dispute the injury and agreed to pay for treatment. After a $20,000 operation and 18 physical therapy sessions at $150 apiece, how much did the insurer pay?

A) $20,700

B) $20,000

C) $22,700

D) $2,700

35)  Judy is found to be 70 percent to blame and Don 30 percent to blame in an accident in which Judy suffers a loss of $1,000 and Don suffers a loss of $10,000. Under the doctrine of comparative negligence Don recovers:

A) $7,000

B) $10,000

C) $7,000 less 30 percent of Judy’s loss

D) nothing

36)  The amount an insured pays on a claim before the insurer pays the remainder is the:

A) depreciation

B) deductible

C) copayment

D) coinsurance

37)  Victor's car was damaged by the negligence of another driver. He decided to collect from his own insurance company and let them recover the loss payment from the negligent driver. This is an example of what fundamental legal principle?

A) utmost good faith

B) indemnity

C) subrogation

D) insurable interest

38)  Allie has automobile insurance with 100/300 bodily liability coverage. How much would her insurance company pay for injuries to one person?

A) $100,000

B) $300

C) $30,000

D) $1,000

39)  If a visiting guest is injured inside a tenant’s apartment, who is responsible for the injuries?

A) the guest’s landlord

B) the tenant

C) the injured guest

D) the tenant’s landlord

40)  Which statement about workers’ compensation is correct?

A) Workers’ compensation will pay for your home mortgage

B) Workers’ compensation will pay medical expenses and all lost wages.

C) Workers’ compensation will pay death benefits.

D) Workers’ compensation will pay college tuition.

41)  Another term for a salary continuation plan is:

A) COBRA benefits

B) a sick leave plan

C) a short-term disability plan

D) severance pay

42)  The cash value option allows the insured to:

A) be assured that the lump-sum option will be selected by the policy beneficiary

B) collect the death benefits in a lump sum

C) receive in cash the present value of the face amount of the policy based on the life expectancy of the insured

D) surrender the policy for the accumulated cash value

43)  Who is the person or legal entity designated to receive a life insurance death benefit?

A) owner

B) insured

C) beneficiary

D) assignee

44)  What insurance plan covers all employees of the insured by a single contract?

A) prospective plan

B) individual plan

C) retrospective plan

D) group plan

45)  What is it called when the risk of financial loss must be demonstrated before buying a life insurance policy on someone else?

A) utmost good faith

B) subrogation

C) insurable interest

D) indemnity

46)  A life insurance policy limited to a specific length of time is known as:

A) universal life

B) variable life

C) term life

D) whole life

47)  This coverage provides hospital medical benefits to people over 65 and to eligible disabled people under 65.

A) Workers’ Compensation

B) Medicaid

C) COBRA

D) Medicare

48)  The advantages of group health insurance plans include:

A) right of reciprocity

B) customization to individual needs

C) low cost

D) exclusivity

49)  Which one of the following statements about long-term care is **not** correct?

A) Long-term care insurance does not guarantee you will receive better care.

B) Long-term care insurance does not simplify your decisions about long-term care.

C) Long-term care insurance guarantees you a spot in the facility you want.

D) Long-term care insurance does not lower your risk of needing long-term care.

50)  Which choice best describes the meaning of “tax-deferred?”

A) Earnings on the investment are taxed at time of purchase.

B) Earnings on the investment are not taxed until you collect the money.

C) Taxes are not paid for a long time.

D) The taxes are lower.

51)  Blossom buys a universal life policy and names her friend Brittany, who has a special needs child, as beneficiary. For the first year she invests $150 a month into the policy. How much has Blossom paid into the account at the end of a year?

A) $180

B) $1,800

C) $150

D) $2,000

52)  Which one of the following is **not** one of the three main types of life insurance?

A) industrial life

B) whole life

C) universal life

D) term

53)  An employer-sponsored retirement plan in which the employee, and usually the employer, makes payments into a fund that the employee manages is called:

A) 401 (k)

B) IRA

C) defined benefit

D) Keogh

54)  What is it called when money is paid by the insured to the insurer to purchase an insurance policy?

A) deductible

B) premium

C) coinsurance

D) claim

55)  This is insurance for business's organizations, institutions, and government agencies.

A) captive insurance

B) reinsurance

C) co-insurance

D) commercial insurance

56)  Temporary evidence of insurance until a policy is actually issued is provided by a(n):

A) endorsement

B) brokerage agreement

C) pre-approval form

D) binder

57)  Laws under which businesses that sell liquor may be held liable for the negligence of those who consume the liquor are referred to as:

A) attractive nuisance laws

B) proprietary function laws

C) assumption of risk laws

D) dram-shop laws

58)  A life insurance company based in Canada was licensed to operate in Massachusetts. When operating in Massachusetts, the Canadian insurer would be considered a(n):

A) captive insurer

B) alien insurer

C) foreign insurer

D) domestic insurer

59)  The person or business for which an insurance company assumes the risk is called the:

A) claimant

B) insured

C) enrollee

D) policyholder

60)  A dependent is:

A) the person who buys a life insurance policy

B) someone who is employed by another person

C) a person who must rely on another for financial support

D) the person who receives money when the insured dies

61)  An amendment to your individual policy that reflects any changes to the standard policy is called a(n):

A) endorsement

B) settlement

C) application

D) deductible

62)  The page of an insurance policy that identifies the insurance company and the insured, and summarizes the coverage provided by that particular policy, is known as:

A) insuring agreement

B) conditions

C) definitions

D) declarations

63)  A cause of a loss may be due to:

A) exposure

B) peril

C) hazard

D) risk

64)  The primary purpose of coinsurance in property insurance is to:

A) reduce moral hazard

B) achieve equity in rating

C) minimize problems in settling claims

D) eliminate small losses

65)  Exclusions are used in insurance policies for all e**xcept** which one of the following reasons?

A) eliminate coverage not needed by typical insured

B) reduce moral hazard

C) eliminate coverage for uninsurable perils

D) waive policy conditions

66)  What information is contained in the insuring agreement of an insurance policy?

A) a summary of the obligations of the insured

B) a list of the property, losses, and perils that are excluded

C) a summary of the major promises of the insurer

D) a description of the property or life to be insured

67)  All of the following statements about business objectives in designing a rating system are true **except** the rating system should:

A) encourage loss control activities

B) be independent of long-run changes in economic

C) be simple to understand

D) be stable over short periods so that consumer satisfaction can be maintained

68)  Which choice is **not** a kind of term insurance?

A) level term

B) decreasing term

C) variable term

D) increasing term

69)  To be properly classified as "insurance" an arrangement also must have all but one of the following elements.

A) It must cover accidental losses.

B) It contemplates the prediction and distribution of losses among members of the insured group.

C) An insurable interest must exist among those insured.

D) It must be described by a legal contract between the parties.

70)  Under one doctrine, a person who understands the danger inherent in an activity cannot recover damages in the event of injury from the activity. This doctrine is the:

A) fellow servant doctrine

B) contributory negligence doctrine

C) comparative negligence doctrine

D) assumption of risk doctrine

71)  What is the practical effect of an insurance policy being a contract of adhesion?

A) The insurer can refuse to pay claims unless the insured has complied with all policy provisions.

B) The insurer can sue the insured for failure to pay any premiums.

C) The policy is interpreted in the insured's favor if the policy contains any ambiguities or uncertainties.

D) The insured can assign the policy only with the insurer's consent.

72)  Which one of the following statements about offer and acceptance for insurance contracts is **true?**

A) In life insurance, the agent can usually accept an offer by immediately.

B) In property insurance, the offer and acceptance are usually in writing but may be oral.

C) In property insurance, the applicant accepts the offer by completing the application and paying the first premium.

D) In life insurance, the offer is merely the promise to pay the first premium.

E) In life insurance, the agent can usually accept an offer by immediately binding coverage.

73)  The policy provision requiring the filing of proof of loss with the insurer is an example of a(n):

A) declaration

B) miscellaneous provision

C) insuring agreement

D) condition

74)  This refers to how the death benefits are distributed to the beneficiaries.

A) will options

B) benefit options

C) distribution options

D) settlement options

75)  Which one of the following statements describes how losses will be settled if a property insurance policy is written on a replacement cost basis?

A) The insurer must replace the damaged or destroyed property in lieu of a cash settlement.

B) Losses are settled without the applicable deductible.

C) The policy is converted to a valued policy.

D) Losses are settled without a deduction for depreciation.

76)  An insurance company chartered in another country has been licensed to operate in your state. In your state, the insurer would be considered a(n):

A) alien insurer

B) foreign insurer

C) reciprocal insurer

D) no admitted insurer

77)  Insurance must, by law in most states, meet all but one of the following requirements.

A) must be fair

B) must not be excessive

C) must be adequate to meet future losses

D) must encourage loss control efforts by the insured

78)  Ravi is cited in an accident that he thinks is not his fault, because the other car sped into a blind intersection and hit Ravi’s car as he was pulling into traffic. What should Ravi do?

A) Ravi should refuse to sign the ticket until he talks to his insurer.

B) Ravi should refuse to sign the ticket until he talks to an attorney.

C) Ravi should sign the ticket.

D) Because he believes he’s not at fault, Ravi should refuse to sign the ticket.

79)  What is a decrease in or disappearance of value?

A) loss

B) physical hazard

C) speculative risk

D) peril

80)  All of the following statements about the methods of regulating insurance are true **except:**

A) insurers are totally exempt from regulation by federal agencies and laws

B) state insurance commissioners, through administrative rulings, have considerable power over insurers doing business in their states

C) the courts regulate insurance in many ways, including the interpretation of policy clauses and provisions

D) all states have insurance laws that regulate the operations of insurers

81)  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_is the practice of making false claims for an insurance product.

A) Misappropriation

B) Fraud

C) Misrepresentation

D) Falsifying

82)  Fly-By-Night Insurance Company had much larger losses than forecast. The company had not charged adequate premiums nor had the company purchased reinsurance. If Fly-By-Night becomes insolvent, which one of the following will help to pay the unpaid claims of the insurer?

A) guaranty fund

B) risk-based capital

C) admitted assets

D) premium taxes

83)  RST Insurance is an interesting company. It doesn't have any agents! Rather, the company sells insurance through radio ads, telemarketers, and newspaper and magazine inserts. This distribution method is called:

A) multiple distribution system

B) reciprocal exchange

C) mass merchandising

D) direct response system

84)  Which one of the following statements about treaty reinsurance is **true?**

A) The reinsurer must accept all business that falls within the scope of the treaty.

B) The ceding insurer can choose which business falling within the scope of the treaty it wishes to reinsure.

C) It protects the reinsurer by requiring the ceding insurer to charge adequate premiums.

D) The reinsurer is required to underwrite each individual applicant that is reinsured.

85)  A reinsurance contract that is entered into on a case-by-case basis after an application for insurance is received by a primary insurer is called:

A) facultative reinsurance

B) a reinsurance pool

C) an automatic treaty

D) a retrocession

86)  Jade’s morning commute taking the beltway averaged 40 minutes. One day she used surface roads and discovered the drive had taken only 30 minutes. What percentage of her usual travel time had she saved?

A) t

B) 20 percent

C) 0.25 percent

D) 25 percent

E) 2.5 percent

87)  The unethical practice of making false or misleading statements with the intent to deceive or be unfair is called:

A) concealment B) rebating C) misrepresentation D) twisting

88)  Which of the following does **not** involve a moral hazard?

A) an employee known to falsify personal injury claims

B) a dishonest employee

C) a driver who drives recklessly because he feels that any damage to his car will be covered by insurance

D) a building owner who is considering torching the building

89)  Mark has been an underwriter for twenty years. An application he recently reviewed looked odd to him. The building value in the application seemed far too high, and Mark suspected the applicant might be planning to destroy the property after it is insured. Mark contacted an outside firm and hired someone to investigate the applicant and to prepare a report about the applicant. This report is called a(n):

A) binder B) physical inspection C) inspection report D) agent's report

90)  Monopoly Insurance is the only company marketing a certain line of insurance in a state. After complaints from several consumers, the State Insurance Department investigated Monopoly's rates. The regulators determined that Monopoly was taking advantage of being the only insurer offering the line by charging more than double the actuarial cost of the coverage. Which regulatory rating objective was Monopoly violating?

A) Rates must be adequate. B) Rates must not be excessive. C) Rates should encourage loss control.

D) Rates must not unfairly discriminate.

91)  A false statement made by an applicant for insurance is an example of a:

A) concealment

B) lack of offer and acceptance

C) breach of warranty

D) misrepresentation

92)  An agent who has authority to perform only a specific act or function is called a:

A) special agent

B) licenses agent

C) general agent

D) secret agent

93)  An insurance agent that sells insurance policies from a variety of different companies is:

A) an insurance broker

B) an independent insurance agent

C) a self-insured insurance agent

D) a single company insurance agent

94)  In what career would a person develop business strategies and presentations to promote the sale of different insurance products?

A) risk analyst

B) underwriter

C) marketer

D) customer service representative

95)  A system of insurance set up by state law that pays employees who are injured on the job is called:

A) retirement insurance

B) liability insurance

C) workers’ compensation

D) group insurance

96)  What is the chief role of an actuary?

A) manage risk

B) create mortality tables

C) keep statistics

D) insure risk

97)  This type of agent sells only the products of one insurance company.

A) local

B) permanent

C) captive

D) special

98)  What career would allow a person to investigate claims to determine credibility and liability?

A) broker

B) accident reconstructionist

C) actuary

D) agent

99)  In what career does an employee forecast the financial needs of insurance companies using mathematical and computer models?

A) underwriter

B) claims adjustor

C) forensic engineer

D) actuary

100)  In what career would an employee identify risks and provide recommendations to reduce loss and damages?

A) broker

B) loss control specialist

C) actuary

D) group underwriter

2016 SLC Insurance & Risk Management Key

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| 92) | A |
| 93) | B |
| 94) | C |
| 95) | C |
| 96) | A |
| 97) | C |
| 98) | B |
| 99) | D |
| 100) | B |