

Directions: Please answer the following questions designed to test your knowledge of the fundamentals of risk and insurance, risk management principles, basic insurance contracts, the HO and PAP policies, commercial lines coverage, surety and fidelity bonding, reinsurance, advanced topics in risk management, health and disability insurance, life insurance and employee benefits. Each question objective question is equally weighted. Choose the best possible response from the answers that are given.

1. If the frequency of loss is low and the severity is high, generally the most appropriate risk management tool to use is: (a) risk transfer or insurance (b) risk reduction (c) risk assumption (d) risk avoidance (e) loss prevention and control.
2. The insurance concept that states that the insured should be placed in the same financial position after an insured loss as existed prior to loss is: (a) ipsa res loquitur (b) utmost good faith (c) the principle of indemnity (d) material misrepresentation (e) principle of adhesion
3. Hazards are usually classified into the following categories (a) perils, risks and uncertainties (b) physical, mental and moral (c) moral, morale, and physical (d) personal, property, and liability (e) static, particular, pure
4. You are in an auto accident with another driver who negligently plows into your car while you are waiting at a red light. Payment for damages to your car is made by your insurer. However, your insurer is able to obtain payment for the amount they paid you from the other driver's insurance company. This is an example of: (a) co-insurance (b) a coordination of benefits clause (c) assignment (d) subrogation (e) replacement cost coverage
5. Which of the following is **NOT** an example of a pure risk? (a) potential loss of a home by fire (b) potential theft of a car (c) potential loss of your watch being stolen over at the UNI Wellness Center (d) loss of the use of your apartment due to smoke damage from a fire in your apartment complex (e) none of these – all of the above are examples of pure risks
6. The special legal concept in insurance that results in any ambiguity within a policy being decided in favor of the insured over the insurer when two possible interpretations exist is called: (a) the principle of reasonable expectations (b) the principle of contracts of adhesion (c) utmost good faith (d) unilateral expectations (e) the principle of co-insurance
7. Which of the following items **does not** reinforce the principal of indemnity? (a) actual cash value (b) estoppel and policy waiver (c) insurable interest (d) subrogation (e) proof of loss
8. A waiver is: (a) part of most property insurance contracts (b) a release of any additional claims against the insurer (c) a legal response when the insurer informs the insured a claim is denied (d) giving up a known right by either the insured or insurer (e) used to deny coverage only when the insurer suspects fraud

9. Insurance policy is considered an aleatory contract because: (a) you help write the contract (b) the insurance company writes the contract with your help (c) the insurance company gets the benefit of the doubt on any unclear wording since you did not spend any time writing the contract (d) ambiguities are construed against the party writing the contract, therefore when interpreting ambiguous clauses in an insurance contract courts will favor the insured over the insurer (e) there may be an unequal sharing of dollar amounts between the parties to the insurance contract.

10. The goal of risk management is to: (a) Minimize insurance expenditures (b) Make certain that uninsured losses do not occur (c) Minimize the adverse consequences of losses and uncertainty connected with pure risks (d) Get the best buys in the field of insurance (e) Eliminate financial loss

11. For a life insurance policy, insurable interest needs to be shown: (a) at the inception of the contract (b) at the time of loss (c) anytime within the policy period (d) shortly after loss as occurred but before filing proof of loss (e) whenever it is required by the insurance company

12. Which of the following annuities will provide the highest dollar amount of annual benefit for a given amount of premium by the annuitant: (a) a life annuity to a male person age 85 (b) a life annuity to a female person age 82 (c) a 5 year certain and life annuity to a male age 30 (d) a 10 year certain and life annuity to a female age 50 (e) a cash refund annuity to a male age 50

13. Which of the following is(are) considered to be exclusions in a homeowner's insurance policy? (a) liability coverage related to running a business in the home (b) damages caused by members of the household (c) coverage for a 30 foot catamaran (d) all of these (e) only a and c

14. A permanent life insurance policy where by the cash value is invested for the benefit of the insured and accumulates over time in order to reduce the cost of insurance is: (a) whole life insurance (b) term insurance (c) variable life insurance (d) universal life insurance (e) all of the above except b

15. A type of insurer where the policyholders receive dividends, elect officers and the insurer is required to file a statutory statement with the state insurance commissioner in the states where they do business is called: (a) a mutual insurer (b) a stock insurer (c) a Lloyd's of London Exchange insurer (d) a pro-rata reinsurer (e) a captive insurer

16. A 45 year old male purchases \$500,000 worth of whole life insurance naming his wife beneficiary. During the course of the application process he misstates his medical health claiming he never was a smoker and did not have high cholesterol readings, both of which were false statements. Three years later he dies of a heart attack while attending an Iowa/UNI football game that UNI miraculously won [he went out a winner]. Under these circumstances: (a) the insurer will pay \$500,000 to his wife as beneficiary (b) the insurer will deny the claim saying it was null and void due to false statements made by the insured (c) the insurer will deny the claim saying the policy is voidable based on material misrepresentation (d) the insurer will pay past premiums claiming that the policy came into existence but on false information (e) the insurer will pay past premiums with interest

17. Which of the following would permit the insurance company to void your personal auto policy (PAP)? (a) Concealing the fact that your brother was convicted of drunken driving (b) Misstating your age (c) Driving without a license (d) Lending your car to someone without a license (e) Failing to yield the right of way when entering highway 218 in Cedar Falls

18. At the age of 55, you receive an inheritance of \$100,000. You decide to place those funds with an insurer who agrees to pay you an annual payment as long as you live 10 years later when you reach age 65. Such a transactions is an example of a: (a) cash refund annuity (b) single premium deferred annuity (c) single premium immediate annuity (d) single premium annuity due (e) endowment life annuity

19. Sarah Palin has an HO-2 policy and rents only the unattached converted garage, which is now a self-contained apartment to a fellow by the name of Trucker. The apartment is destroyed by fire when Trucker decides to light a bon fire in the family room while watching Scenes from Alaska on cable TV. What will happen with this claim according to the HO-2 contract?
(a) The fire is a covered peril and the damage will be paid for under the policy
(b) The peril of fire is not covered when it damages unattached structures, such as a garage
(c) There will be no payment because a rented structure that is part of the house is excluded from coverage as a separate business pursuit
(d) Because it was an unattached, the HO-2 policy does cover it, but only on a proportional loss sharing basis
(e) Sarah's insurer will sue Trucker for negligence and pay Sarah for pain and suffering from the assessed court damages

20. Assume you have a HO-3 homeowner's policy which has the following limits: A = \$50,000 [dwelling] B= \$5,000 [other structures] C= \$25,000[unscheduled personal property]. Your home burns down with a \$0 deductible. You lose the home worth \$40,000, an unattached garage worth \$8,000, and personal property worth \$30,000. You will collect: (assume a valid contract, that does not specify replacement cost coverage)
a. \$70,000 b. \$78,000 c. \$58,000 d. \$50,000 e. \$48,000

21. The tendency of unhealthy persons to seek life or health insurance at standard rates is an example of: (a) moral hazard (b) fundamental risk (c) subrogation (d) adverse selection (e) ipsa res loquitur
22. The South-Eastern Underwriters Association Case: (a) reversed the Paul vs. Virginia decision allowing for federal regulation of insurance (b) reversed Paul vs. Virginia stating that insurance was not interstate commerce (c) upheld the precedent set in Paul vs. Virginia that insurance was interstate commerce (d) occurred in 1865 during the time of the Civil War and applied to those companies insuring soldiers and military equipment (e) applied only to the 8 southeastern states filing suit in the case
23. Insurers call claims filed many years after alleged negligence which requires the reserving for incurred but not yet reported loss: (a) Hold harmless losses (b) Estoppel claims (c) Out-of-contract claims (d) Long-tail claims (e) short-tail claims
24. Major medical insurance: (a) has a high limit of coverage (b) is characterized by low deductibles (c) pays for experimental surgeries and all outpatient procedures (d) only pays for hospital charges not doctor's fees (e) only pays for doctor's surgical fees and not hospital room and board charges
25. The principle of utmost good faith: (a) Holds only the insurer to a high standard of honesty in executing insurance policies (b) Generally does not apply to health insurance (c) . Holds both the insured and insurer to a high standard of honesty throughout the duration of the insurance policy (d) Is a tool used to defraud policyholders (e) Only applies to commercial insurance
26. A misrepresentation that can make an insurance policy voidable occurs only: (a) if it is known at the time of loss (b) if it is material in terms of the way the insurance is underwritten (c) in the absence of an offer, acceptance and consideration (d) if it violates the principle of indemnity (e) in the presence of fraud
27. Which part of the insurance contract personalizes the coverage to the individual's exposure? (a) the policy application (b) the insuring agreements portion of the insurance policy (c) the declarations page that accompanies the contract (d) the conditions section (e) the definitions portion of the contract

28. Dick and Jane have a homeowner=s policy with the following limits: A = \$50,000 (dwelling), B= \$5,000 (other structures), C = \$25,000 (unscheduled personal property). The value of their home is \$50,000. The insurance company requires an 80% coinsurance provision. If they insure the home for \$30,000 and sustain a \$12,000 loss to the dwelling, how much will they recover from their insurance company assuming there is no fraud or other unusual circumstances surrounding the loss? (a) \$12,000 (b) \$9,000 (c) \$16,000 (d) \$10,000 (e) \$12,000 - \$5,000 or \$7,000

29. An insured with a \$100 deductible collision coverage, sustains an accident with a wild deer named Bambi. The auto suffers \$600 damage. In addition to the collision coverage, he also has \$0 deductible on non-collision coverage. The amount of coverage on collision/non collision insurance is \$5,000. The insured can recover from the insurer:

a. Full loss, less \$100 b. Full loss under supplementary payments c. Full loss
d. Nothing, this damage is not covered E. \$600 less the \$100 deductible under the uninsured motorist physical damage coverage

30. Assume you have a PAP with 50/100/10 split limits. You are responsible for a collision which injures four persons. The injured people successfully sue you for \$5,000, \$8,000, \$30,000 and \$80,000. Your insurance company will pay:

a. \$50,000 b. \$60,000 c. \$93,000 d. \$100,000 e. \$110,000

31. The process under which a primary insurer cedes a portion of its insurance to another insurance carrier is called: (a) adverse selection (b) reinsurance (c) subrogation (d) estoppel (e) res ipsa loquitur

32. Which of the following healthcare delivery organizations has policyholders choosing from a panel or list of doctors that charge pre-negotiated fees for services, and incorporates co-insurance and co-payment provisions to ration care: (a) indemnity medical insurance policy (b) stand-alone HMO (c) major medical insurance plan (d) Preferred Provider Organization [PPO] plan (e) affordable stop loss medical plan

33. A married couple where the wife is 24, and the husband 22 have one child age 1. Both parents are working and they want to insure against the possibility one might die prematurely in the next 20 years, so they are considering the purchase of \$ 250,000 in life insurance. They have a limited budget, but they need to get two policies one on the husband, the other on the wife for \$250,000. Which type of life insurance works best for them given that they want the most coverage for the least dollar outlay (a) two \$250,000 whole life policies (b) two 20 year term life insurance policies with a face amount of \$250,000 on each policy (c) two \$250,000 variable life insurance policies (d) two \$250,000 universal life insurance policies (e) two \$250,000 second to die life insurance policies

1. A
2. C
3. C
4. D
5. E
6. B
7. B
8. D
9. E
10. C
11. A
12. A
13. D
14. E
15. A
16. A
17. B
18. B
19. C
20. A
21. D
22. A
23. D
24. A
25. C
26. B
27. B
28. B [$30,000/40,000 \times 12,000$]
29. C
30. C
31. B
32. D
33. B