

Directions: Please answer the following questions designed to test your knowledge of the basic concepts of insurance operations, the fundamental principles of casualty and life insurance contracting, policy provisions, and premium calculations. Each question is weighted equally. Choose the best possible response from those that are given.

1. When settling a homeowner's insurance claim, the policyholder needs to show insurable interest: (a) at the time of loss (b) at the inception of the contract (c) throughout the premium payment period (d) at the time of loss and at the beginning of the contract (e) never, the policyholder is always deemed to have an insurable interest in the policy
2. You get into a car accident with I M Goodriver sustaining \$4,500 in physical damage to your auto. Goodriver ran a stop light and was cited for failing to come to a complete stop thereby causing the accident. Your insurance company reimburses all damages related to the full repair of your car. Under what principal will your insurance company seek to collect from Goodriver or his insurance company for the \$4,500 paid for on your claim? (a) subrogation (b) indemnity provision (c) co-insurance clause (d) coordination of benefits provision (e) res ipsa loquitur
3. A legal principle used in business that may establish liability of a supervisor for the actions of those underneath them is: (a) res ipsa loquitur (b) independent agency (c) contributory negligence (d) comparative negligence (e) employer-employee principle
4. Which of the following represents the best example of risk transfer when applying risk management methods to identifiable risks: (a) National Flood Insurance (b) bank deposit insurance through the FDIC (c) pension insurance coverage on defined benefit plans through the PBGC (d) obtaining liability coverage in an auto insurance policy (e) obtaining a credit card to provide emergency funds when faced with a physical damage loss
5. Which of the following is NOT a method for settling a casualty insurance claim? (a) actual cash value (b) cost to repair (c) cost to replace (d) insurable interest at the time of loss (e) insurable interest at the inception of the insurance policy
6. The principle of indemnity in insurance means: (a) a person has the right to sue an insurer for loss when they are not satisfied with the payment of a claim (b) that a person may not collect more than his/her actual financial loss in the event of damage caused by an insured peril (c) that a person will not be reimbursed for a loss unless he can show proof of loss (d) an employer is always responsible for the careless acts on an employee (e) an adjusters may not be held liable for twice the claim if a settlement has already been reached on a policy

7. The Medical Payments Coverage under Section 2 in the HO-3 policy covers all of the following EXCEPT: (a) a guest slips and falls on a piece of ice during a birthday party celebration in the insured's home (b) the babysitter sustains a bite to the arm by the insured's five year old son while arguing over when bedtime is to be imposed (c) the insured stumbles down the basement stairs while doing the laundry and breaks his arm (d) the insured accidentally hits someone with a golf ball when teeing off from the front of his house and that person needs medical treatment (e) a neighbor's child injures himself climbing over the insured's fence and requires stitches in the emergency room
8. Which of the following would be covered under the liability coverage in your Homeowner's (HO) policy? (a) your wife is injured when you son leaves his skate board on the front step causing her to fall down the stairs (b) you borrow your neighbor's snow blower and inadvertently leave it out overnight and it is gone the next morning (c) at your daughter's wedding reception, your son in law slips on a piece of ice and breaks his arm prior to the honeymoon (d) an 8 year old neighbor's daughter crawls underneath the fence surrounding your pool and winds up becoming injured slipping on the deck and you are sued for the bodily injuries (e) you punch out the comedian at your 25th wedding anniversary celebration and you are put in jail for assault and battery, resisting arrest
9. You insure your \$200,000 home under a HO-2 policy with an 80% coinsurance provision, deciding to purchase \$150,000 in coverage. You sustain a \$10,000 covered loss. What will be your claim settlement (ignoring any deductible):

(a) \$10,000 (b) \$9,500 (c) \$9,375 (d) \$7,500 (e) \$0
10. Which of the following provisions in the HO policy creates a third party to the insurance contract? (a) assignment clause (b) mortgagee clause (c) arbitration provision (d) appraisal provision (e) removal clause
11. In property insurance, coinsurance is: (a) An agreement between two or more insurers to equally share the costs of large losses (b) A contractual agreement to make the insured bear a portion (usually small) of every loss (c) A contract agreement to help equalize total claims to reinsurance premiums (d) A contract provision designed to discourage under-insurance (e) An agreement to prevent first-dollar coverage on small nuisance claims above the disappearing deductible

12. Bo Longbow, an insured with \$500 deductibles on both his homeowner's and auto insurance policies. One snowy evening while driving home from the university thinking about his day of doing battle with ignorance, Bo collides with a deer hereafter called "Wild Thing." Unfortunately, he did not have his cell phone with him, so he decides walk for help, coffee, pizza and a donut at the local Casey's. He forgets to lock the car, so later when he comes back with the tow truck his \$1,000 Hoyt recursive bow is missing. Under these circumstances: (a) Bo will file a claim under his auto insurance policy using the theft provision within the physical damage coverage to the policy (b) Bo can file under his homeowner's policy, personal property coverage C (c) since the proximate cause of loss is due to collision with "Wild Thing" an animal not a car the auto policy may pay, but only if Bo has non-collision coverage (d) Bo is out of luck, since he intentionally left the scene of the accident due to what is known as the Chappaquiddick Exclusion (e) Bo will not be able to recover from his homeowner's policy because once he left the car unattended he no longer had an insurable interest in the vehicle
13. Harl E Davidson decides to set up an arc welding shop inside his garage to earn a little extra money so he can go up to the Sturgis Falls Celebration at Mount Rushmore South Dakota.

Harl has an HO-2 policy on his home. Unfortunately, his garage burns to the ground one night when the motorcycle strut he is welding overheats and causes an explosion. 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 because Harl had an insurable interest in the property at the time of loss (b) The peril of fire is not covered because Harl did not show an insurable interest in the garage at the inception of the policy (c) There will be no payment because the HO-2 policy excludes business pursuits (d) a partial payment will be made based on the indirect damage losses from Harl being unable to continue his business in the garage (e) a full payment will be made because Harl showed insurable interest at the time of loss and the principle of subrogation applies

14. Loss adjusters do all of the following EXCEPT:
- (a) investigate claims to determine if fraud is involved
 - (b) negotiate with the insured on the amount of damage claims paid under the policy
 - (c) recommend denial of claims where there is no insurable interest
 - (d) act as the company's lawyer if the case goes to court
 - (e) interpret the policy provisions covering the loss
15. Which of the following is(are) requirements in order for a plaintiff to successfully sue a defendant for negligence: (a) to establish facts that show the negligent actions of the defendant caused the injuries to the plaintiff (b) to determine the amount of financial damages resulting from the defendant's negligence (c) establish the amount the defendant contributed to their own injuries (d) a and b (e) to determine the last clear chance the plaintiff had to avoid injury

16. The \$500 deductible on your auto insurance policy is an example of which risk management technique? (a) risk avoidance (b) risk assumption (c) loss control (d) loss prevention (e) risk transfer
17. Adverse selection represents a case where: (a) an insured attempts to obtain coverage at substandard rates (b) individuals who are poorer than average risks will attempt to obtain insurance at standard rates (c) the federal government must provide coverage (d) a buyer of an interest rate futures contract loses money as interest rates rise (e) an employer is held responsible for the actions of his/her employees
18. 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 57 in Cedar Falls
19. Jennifer has an HO-2 policy and rents only the unattached converted garage, which is now a self-contained apartment to a Nancy, a college student. The apartment is destroyed by fire. What will happen with the 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 other than the residence 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
20. . Assume you have a homeowners 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. 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, no deductible, insurable interests exists and co-insurance has been met)
- a. \$70,000 b. \$78,000 c. \$58,000 d. \$50,000 e. \$48,000
21. Possible defenses used by insurers to overcome a negligence claim in court is(are):
- (a) contributory negligence (b) assumption of risk (c) doctrine of last clear chance
 - (d) all of the above
 - (e) none of the above these are arguments used by the plaintiff to establish negligence

22. Within the homeowners policy, the property removal provision refers to: a. The cost of repairing property b. The cost of removing property after a fire c. coverage for loss of property threatened by an insured peril that the owner tried to save by removing the property to another secure location d. Loss of property while being removed from an old to a new residence e. Removing property to be salvaged by the insurer

23. Jerry Johnson purchases a condo for \$120,000 insuring the unit for that amount. One year later he sells half his interest in the property to his sister-on-law, Janet Jackson. Jerry maintains insurance on the property for \$120,000, but during a wind storm the condo sustains damages of \$60,000. Jerry's policy does not have a replacement cost coverage, however this loss is covered under the policy's standard settlement provisions. Under these circumstances he will collect from his insurer [assuming no deductible]:

- a. \$80,000 b. \$60,000 c. \$40,000 d. \$30,000 e. \$15,000

24. A misrepresentation in insurance : (a) always voids a contract (b) makes a contract voidable if it is material, meaning the insurer would either not have issued the policy or issued it on a substantially different basis if the true facts had been known (c) is also known as the anti-concealment provision (d) is identical to estoppel and has the same force in law as a warranty (e) voids the contract at the option of the insured

25. Dick and Jane have a \$100,000 home and two \$100,000 fire insurance policies. Dick bought his policy without telling Jane and she obtained another policy from a different agent after receiving a circular telling about low rates with the Less Progressive Insurance Agency. How much can they collect in total from their insurers following a \$30,000 fire loss to their home?

- (a) \$15,000 total because they have two policies (b) \$100,000 (c) \$50,000 (d) \$30,000 (e) nothing, since it is illegal to have two policies on the same piece of property

26. Assume you have a Personal Auto Policy [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

27. Failure to exercise the degree of care required by law to protect others from harm is: a. hold harmless liability b. vicarious liability c. res ipsa loquitur liability d. negligence e. comparative estoppel

28. While driving home from insurance class in December you reflect on the provisions in your Personal Auto Policy, going over in your mind the \$100 deductible, \$300,000 liability coverage, and \$10,000 collision coverage. You wonder whether you should consider extending the policy to include both underinsured motorist, as well as, non-collision coverage. However, before you get much further, a wild deer named Bambi comes out from the ditch and runs smack into your car on the passenger side. Your auto suffers \$600 in damages, and Bambi loses an antler but otherwise remains unscathed. Under these circumstances you will be able to recover from your insurer:

- a. Full loss, less \$100, because Bambi collided with your car thus invoking the collision coverage b. Full loss under supplementary payments, as Bambi would be considered a visitor to your car c. Full loss d. Nothing, this damage is not covered E. \$600 less the \$100 deductible under the uninsured motorist physical damage coverage

29. Under which of the following would an insured be responsible for the negligent actions of another? (a) you lend your car to someone else and they have an accident which is deemed their fault (b) you own a condo, pay association fees and someone visits the pool, becomes injured and successfully sues the homeowner's association (c) you purchase a home with a swimming pool and a 12 year old neighbor comes on the property and is injured around the pool (d) the mailman comes to deliver mail, slips on some ice because you fail to clear the walkways and successfully sues you for negligence (e) only a and b

30. Underinsured Motorist (UM) coverage:

- a. Is the same as the uninsured motorist coverage
- b. Will pay whatever difference may exist between the liability assessed a negligent driver for damages to you and the amount of coverage that negligent driver has in a PAP, up to the limits of your UM coverage
- c. Pays for property damage you cause when victims have no coverage
- d. Pays for an insured's negligence when insufficient liability limits exist
- e. Pays amounts in excess of medical payments when the medical payments limit is exhausted

31. Which of the following would be covered under an HO-3 policy? (a) the loss of shrubbery due to a leaf fire on the property (b) damaged to your motor home due to your hitting a tree outside your cabin in Vail, Colorado (c) loss of your pet cat Muffy who died when his tail caught on fire investigating a fire in the fireplace (d) loss of your computer laptop stolen from your locked car while on a trip to Hot Springs, Arkansas during Thanksgiving Break (e) liability assessed against you as the result of giving poor investment advice to a neighbor while running a financial planning business out of your home

32. Which of the following items does not reinforce the principal of indemnity? (a) actual cash value (b) adverse selection (c) insurable interest (d) subrogation (e) proof of loss

33. Under a contract of adhesion: (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) the contract is always construed against the insured

34. For a married couple both aged 35, with two dependent children 3 and 4, seeking to purchase life insurance protection, the lowest cost form of life insurance coverage would be: (a) 20 year term life insurance on the wife age 35 (b) 20 year term life insurance coverage on both the husband and wife now age 30 that pays on the second to die (c) a whole life insurance policy issued to the husband age 30 (d) a straight life annuity immediate issued to the wife age 30 (e) a 50 year term life insurance policy issued to the husband age 30

35. As an underwriter for the Ben Franklin Life Insurance Company, you have been asked to examine a \$100,000 whole life insurance claim on Tony Wiener. Tony, who paid premiums for two years on his Franklin whole life coverage, died when he slipped into the Grand Canyon while texting his secretary [it was a slippery slope]. Upon his death, your claims representative discovered that Tony failed to mention a history of diabetes when applying for coverage with Franklin and the corner has ruled that Tony may have fallen due to diabetic shock. Under these circumstances: (a) the policy will pay the beneficiary the paid in premiums because of the misunderstanding about his diabetes when applying for coverage (b) the policy will no pay anything because Tony was engaged in a hazardous hiking activity while texting his secretary (c) the policy will return to the beneficiary the sum total of all premiums paid by Tony since the contract involved a material misrepresentation (d) the policy will return to the beneficiary the accumulated cash value because that was the value of the contract at the time of death (e) the policy will pay \$100,000 to the beneficiary Tony designated in the whole life insurance contract

36. Drivers of health care costs over the last two decades, which make it difficult for insurers to underwrite medical risks are: (a) the lack of distributed medical equipment within cities and regions of the US (b) the cost of medical malpractice insurance caused by increased court litigation of doctors and hospitals (c) provision of medical services to the uninsured population on a catastrophic basis, causing hospitals and doctors to transfer bad debt loss onto those with insurance coverage (d) all of the above (e) only (a) and (b)

37. Pricing objectives in life and health insurance is (are):

- a. That premium rates should be adequate
- b. Premiums should be equitable
- c. Premiums should not be excessive
- d. All of the above
- e. Only a and b

38. A type of managed care health insurance plan, where the doctors, nurses and medical treatment are housed in one building, patients pay a set subscriber fee, and can only choose from those physicians associated with that particular facility is called: (a) an indemnity plan (b) a HMO stand alone plan (c) a HMO network plan (d) a PPO plan (e) a catastrophic major medical plan

Use the following information for questions 39, 40 and 41.

Duration t	Age x	# living l(x)	${}_1q_x$
0	70	5592012	.04979
1	71	5313586	.05415
2	72	5025855	.05865

39. The probability that a person age 71 dies before reaching age 72 is:

- (a) .04979 (b) .05415 (c) .05865 (d) .94585 (e) .02510

40. The probability that a person age 70 lives to age 71 is:
(a) .95021 (b) .05415 (c) .945850 (d) .941350 (e) none of these
41. The probability that a person age 70 lives to 71 and then successfully dies in the next year before attaining age 72 is:
(a) .945850 (b) .941350 (c) .051454 (d) .05865 (e) .04979

Answer Key: 1. A 2. A 3. E 4. D 5. E 6. B 7. C 8. D 9. C 10. B 11. D 12. B 13. C
14. D 15. D 16. B 17. B 18. B 19. C 20. A 21. D 22. C 23. D 24. B 25. D 26. C
27. D 28. D 29. E 30. B 31. D 32. B 33. D 34. A 35. E 36. D 37. D 38. B 39. B
40. A 41. C