Finance 3055 Insurance Operations Fall 2012
Dr. A. Frank Thompson Final Exam

Directions: Please answer the following 33 multiple choice questions designed to test your knowledge of the basic concepts in insurance operations, fundamental principles of insurance contracting, distribution and administration, the regulatory framework of insurance, types of insurers and insurance policies, underwriting, claim settlement and rate making related to insurance operations, as well as, pricing, reserving and underwriting of life insurance, annuities, and health insurance Choose the best possible answer of the responses that are provided with each question.

1. The principle of indemnification states that the insured should be: (a) restored to a better economic position than existed at the time of loss (b) restored to the same financial position they were in prior to loss (c) required to purchase insurance when operating a motor vehicle (d) restored to a worse financial position than existed prior to loss (e) able to establish an interest in the insured property at the inception of the contract for property casualty insurance coverage.

2. Insurance is: (a) a financial arrangement whereby an individual pays a large uncertain sum in order to be indemnified against large, certain losses (b) a risk sharing arrangement in which coverage is provided for events that produce frequent and large losses (c) a financial contract whereby an individual pays a small certain payment in order to be indemnified against large, uncertain losses (d) a pooling arrangement whereby one party is personally liable for the financial risks of another (e) defined by its coverage of a small group of heterogeneous risks.

3. The proximate cause of loss is: (a) a loss event that is in the proximate area of an insured piece of property (b) the first peril in an unbroken chain of events resulting in loss (c) a peril that occurs in close proximity to a policyholder's property where insurance coverage exists (d) a loss from risks that are catastrophic in nature (e) the last peril in a chain of events resulting in loss

4. Mutual insurance companies differ from their stock insurance counterparts, in that mutual insurers are: (a) owned by the policyholders who are entitled to receive dividends from insurance operations (b) able to reduce the cost of insurance coverage to policyholders by using a dividend against the premium (c) required to file a GAAP accounting statement with the SEC
(d) all of the above
(e) only a and b

5. The provision in property insurance [homeowners and commercial lines] that creates a third party to the insurance contract having separate and distinct rights is the: (a) mortgagee clause (b) double indemnity provision (c) subrogation clause (d) arbitration clause (e) assignment provision

6. A pure risk is defined as: (a) anything that decreases severity of loss, but increases the frequency of loss (b) a risk that produces loss where the outcome is either a loss or no loss (c) a risk that produces an outcome where there may be a financial gain or loss (d) the proximate cause of loss (e) an indirect loss that results in the insured party being better off than before an insured peril occurred

7. The type of insurer who could provide $ 1 million in insurance coverage on Peyton Manning's knees against the possibility of a career ending medial meniscus tear would be: (a) an NFL Fraternal insurer (b) a mutual carrier (b) a reciprocal (d) a stock insurer (e) Lloyd's of London Insurance Exchange offering coverage through a surplus lines broker

8. Within an insurer's operations, the person responsible for developing premium rates, creating new policies, determining the adequacy of insurance reserves to meet future claim experience is: (a) an actuary (b) an independent agent (c) a direct writing agent (d) a certified public insurance accountant (e) an underwriter

9. The US Supreme Court Case of 1869 that decided insurance was not interstate commerce and therefore, could not be regulated by the federal government was: (a) <u>Munn vs. Virginia</u> (b) <u>Till vs. SCS Insurance</u> (c) the <u>Southeastern Underwriter's Case</u> (d) <u>Paul vs. Virginia</u> (e) <u>Brown vs. the National Association of Insurance Commissioners</u>

10. When insuring your home under a homeowner's contract, your pet cat, "Muffy the Magnificent," became curious about a cigarette left in an ashtray, and knocked it over causing a fire on the carpet, drapes and furniture in the first floor family room, such an event is an example of: (a) intentional loss not covered in the policy based on the intelligence of your cat (b) a named peril, based on an unfriendly fire which would be covered under the policy using the principle of proximate cause of loss (c) adverse selection giving rise to a voidable contract (d) a medical payments claim due to the fact that Fido needed veterinarian care after the accident part of which was psychological support (e) a material misstatement due to the fact that you failed to disclose that your cat was a kleptomaniac

11. In the state of Iowa, a casualty insurer desiring to set new rates on existing policies can charge the newer rate, file the change with the insurance commissioner, and only if the commissioner disapproves, will the rate revert back to its original premium level, such a rate standard is called: (a) prior approval (b) tentative rate regulation (c) file and use approval (d) commissioner's standard and ordinary approval (e) contingent commissioner's prior approval

12. All of the following are direct losses EXCEPT: (a) the roof is blown off the McLeod Center causing the hardwood floor to be replaced (b) a house is burned to the ground when a squirrel catches on fire in the fireplace and runs around the home (c) you have to rent a car while your car is being repaired when your car sustains damage after you hit a wild turkey returning back to UNI from Thanksgiving break (d) you are sued for $10,000 to repair damages to another person's car following an auto accident in which you are found liable (e) the babysitter for your teenage son sustains a broken arm due to slipping on a piece of ice from your refrigerator requiring medical treatment

13. One measure of a casualty insurer's ability to cover its incurred losses, loss adjustment expenses and incurred underwriting expenses out of earned premiums is: (a) the financial basis combined ratio (b) the equity multiplier (c) the incurred cost operating ratio (d) the Herfendahl index (e) the quick ratio

14. A type of insurance agency system whereby the agent does not own the list of clients, receives income primarily in salary from the insurer they represent and bind coverage for the insurer they work for is: (a) a direct writing agency system (b) a independent commission system (c) a field service agency system (d) an independent agency system (e) an e-market agency system

15. The most difficult and important step in risk management process and one that can lead to a risk manager being terminated if not conducted properly is: (a) risk identification, particularly those risks that are foreseeable (b) finding the least costly insurer to cover all the risks that may impact an organization (c) determining an appropriate premium for the pure and speculative risks that is cheap (d) making sure that all risks are covered through the purchase of insurance (e) hiring a highly trained accountant to create a tax-sheltered captive within the organization to handle all risks

16. The department within the insurance organization responsible for the filing of statutory financial statements with the state insurance commissioner is: (a) the underwriting (b) the claims department (c) the public relations department (d) the accounting department (e) paid loss retrospective rating department

17. The principle of utmost good faith: (a) holds only the insurer to a higher standard of honesty in the execution of the insurance contract (b) generally does not apply in group life insurance since these coverages are administered under comprehensive employer underwriting (c) requires that the insurer fulfill on the promises made in the insurance contact, and that the insured provide accurate information on the insurance application and not withhold information considered material to insurance provided under the contract (d) means that there will be an inequality between the actual value of payments amongst the policy participants (e) requires that the insurer provide the insured with a written contract in order for the policy to come into existence

18. You get into a car accident with I M Goodriver sustaining $5,000 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 $5,000 paid for on your claim? (a) subrogation (b) indemnity provision (c) co-insurance clause (d) coordination of benefits provision (e) res ipsa loquitur

19. A older retiree age 75, with no dependents, seeking to obtain the largest annual income from a $10,000 life insurance investment, should select: (a) a cash refund annuity (b) a $10,000 term life insurance policy (c) a straight life annuity immediate (d) a $10,000 whole life insurance policy (e) a variable life insurance policy with a face amount of $10,000

20. According to the mortality table, the most expensive time to purchase a whole life insurance, based on the cost per dollar of face amount would be: (a) in the first year of life (b) in the years after age 95 (c) when you are between the ages of 28 to 35 (d) all of the above (e) only a and b

21. Current drivers of health care costs, that make it difficult for insurers to underwrite medical risks are: (a) the lack of a distributed medical health system, where equipment such as MRIs might be shared between hospitals rather than having an MRI at each health facility (b) the increased cost of medical malpractice insurance caused by more and more litigation of doctors and hospitals (c) provision of medical services to the uninsured population on a catastrophic loss basis with no provision for preventive care, causing hospitals and doctors to transfer bad debt loss onto those with insurance coverage (d) all of the above (e) only a and b

22.When underwriting a life insurance policy an insurer will, when setting the premium: (a) consider the health of the insured (b) consider the amount of coverage on the policy (c) consider the age of the insured at the time the policy is issued (d) all of the above (e) only a and c

23.When underwriting a life annuity an insurer will, when setting the premium: (a)consider the amount of periodic income being purchased in the annuity contract (b) consider the health of the insured (c) consider the age of the insured at the time the annuity contract is being purchased (d) all of the above (e) only a and c

24.Pricing objectives when underwriting either a Property Casualty or Life and Health Insurance Coverage is(are): (a) That premium rates should be equitable in such a way as to discriminate between differences in risk amongst those being insured (b) That premiums should not be excessive (c) That premiums should be adequate to allow sufficient reserves to be able to meet future claims experience
(d) all of the above
(e) That premiums should be inexpensive to allow for those seeking to obtain insurance to acquire coverage regardless of the risk characteristics of the prospective insured

25.Advantages in the purchase of a term life insurance policy over buying a permanent life insurance contract such as whole life or variable life is(are): (a) term life insurance premiums are less expensive when purchasing coverage after age 70 (b) term life insurance provides an accidental death benefit as part of the coverage (c) term life insurance premiums are cheaper at younger ages when there may be a greater need for insurance protection (d) the term life insurance policy allows the insured to accumulate cash values that can be used to provide retirement benefits at an older age (e) with term life insurance you can borrow off the face amount of the policy at a fixed interest rate such as 5%

26.A type of managed care health insurance plan, where there is a large list of doctors, nurses, hospitals and clinics offering care to insured policyholders at pre-negotiated, reduced rates [called capitation], with small co-insurance and co-payments when going to these listed medical service providers, and these approved facilities may span large regions or the entire United States is called a: (a) HMO Network Plan (b) HMO Stand Alone Plan (c) Preferred Provider Organization (d) Medicaid Plan (e) Network Indemnity Plan

27.Using the following segment from the 1958 CSO Mortality Table, find the probability that a male now age 40 lives to age 42 and then dies before reaching age 43:

Age x	# Living l_x
40	9,241,359
41	9,208,737
42	9,173,375
43	9,135,122
44	9,093,740
45	9,048,999

(a) .004137 (b) .00353 (c) .01855 (d) .09306 (e) .0001855

28..Using the following information from the 1958 CSO Mortality Table, find the probability that a person now age 70 dies between ages 71 and 72 [$_{1|1}q_{70}$].

Age x	# Living l_x
70	5,592,012
71	5,313,586
72	5,025,855

(a) .1296 (b) .0183 (c) .1542 (d) .051454 (e) .94855

29.Those insurance specialists who determine insurance premiums, policyholder reserves and certify as to adequacy of insurer reserves to meet policyholder liabilities are called: (a)actuaries (b) underwriters (c) reservists (d) chief financial officers(e) AIG accountants

30..The calculation of life and health insurance rates and values requires all of the following information EXCEPT: (a) Probability of the insured event occurring (b) Time Value of Money (c) The benefits promised (d) Loadings to cover expenses, taxes, profits and contingencies (e) The financial strength of the insurer

31..The financial accounting statement filed with the state insurance commissioner that focuses on the extent of insurer assets in relationship to the insurer's largest liability namely, policyholder reserves, is called:

(a) GAAP accounting statement
(b) a statutory statement
(c) a reserve adjusted GAAP accounting statement
(d) a asset adjusted GAAP statement
(e) a net asset adjusted reserve statement

32.Which of the following represents the best example of risk transfer or insurance when applying risk management methods to identifiable risks: (a) FDIC bank deposit insurance (b) PBGC insurance on defined benefit plans (c) National Flood Insurance (d) major medical insurance purchased with a large deductible (e) Federal Unemployment Insurance

33. In order for a life insurance contract to come into existence which of the following conditions must occur: (a) an offer of coverage (b) the payment of a premium (c) the acceptance of the payment by the insurer (d) all of the above (e) only a and b

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