Risk Management and Insurance Sample Exam 2
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Directions: Please answer the following questions designed to test your knowledge of life and casualty contracts, annuities, health and disability insurance, and advanced topics in risk management. All questions carry equal weight on this exam.

1. A major difference between life insurance versus homeowner's insurance when settling claims is that: (a) insurable interest must be shown at the time of loss for life insurance, whereas insurable interest has to be demonstrated at the inception of the contract for homeowner's insurance (b) life insurance contracts pay on the basis of actual cash value, whereas homeowner's contracts utilize replacement cost for settlement (c) insurable interest need only be shown at the inception of the contract for life insurance, as opposed to needing to be demonstrated at the time of loss for homeowner's insurance (d) homeowner's are deemed to have an unlimited insurable interest in their property, whereas an individual has only a finite insurable interest in themselves or a member of their family (e) a homeowner's policy pays on the basis of actual cash value whereas a life insurance policy pays the cash value at the time of loss.

2. Life insurance which provides a claim payment only if the insured dies within a specified period of time is a: (1) limited pay whole life insurance policy (b) term insurance policy (c) paid-up universal life policy (d) a limited pay variable life policy (e) a reversionary single term life insurance policy

3. Unless specifically noted otherwise in the HO policy, the method or methods available to an insurer in settling a claim will be: (a) actual cash value (b) cost to repair or replace (c) the value specified for the lost item in the contract such as in the case of jewelry, securities or silverware (d) a, b, and c (e) only a and b

4. When settling an HO policy on a mortgaged home that has been completely destroyed by fire the insurer: (a) will pay the lending institution first to extinguish the mortgage, and whatever proceeds are left will be paid to the homeowner (b) the insurer will rebuild the home while the homeowner maintains the mortgage by making monthly payments on the loan (c) will refinance the homeowner's loan and pay the proceeds to the homeowner who can then decide whether to pay off the original loan (d) pays the homeowner the replacement cost of the home (e) pays the homeowner the actual cash value on the home and agrees to finance whatever additional amounts are needed to rebuild the home.

5. You are driving down University Avenue after a thrilling and outstanding insurance lecture on collision versus non-collision coverage to the personal auto policy [PAP]. Before leaving the UNI parking lot you review your PAP and discover that you only have collision coverage which is why you're traveling on University to talk to your insurance agent. However, as you get near College Square a crazy driver pulls out in front of you lightly hitting your bumper, and you swerve to avoid hitting the other car and further. Unfortunately at the same time, a deer [actual animal, not the tractor] comes out of the bush towards your car and you veer into the ditch colliding with a telephone pole. Your car is totaled. Under these circumstances your PAP will: (a) pay no damages because going in the ditch constitutes a non-collision accident and you have no coverage (b) allow you to sue the negligent driver who pulled out in front of you, providing a lawyer under your liability coverage (c) pay partial damages on your car based on an estimate of the amount of damages caused by the negligent driver who pulled out in front of you (d) pay for all your damages because the proximate cause of loss was collision with another car (e) deny payment based on the principle of subrogation

6. The entire contract provision: (a) requires that the insured read the entire life insurance contract prior to paying the first premium (b) states that only the insured may be allowed to negotiate the entire policy contract (c) provides that all information relevant to the insurance coverage must be physically attached to the contract and forms the basis for determining any issue relating to the policy (d) indicates that it is entirely up to the insured to determine which portions of the policy are applicable to the coverages they have purchased (e) is the basis for requiring that the insured live up to the principle of utmost good faith when seeking to buy insurance

7. Which of the following life insurance policies would have the highest cash value 10 years later, assuming a 4.5% interest rate on funds invested in a policy issued to a male age 45: (a) 10 term insurance (b) whole life insurance (c) whole life insurance paid up at 65 (d) 10 pay whole life insurance (e) 5 year endowment life insurance

8. An insurance contract is void if: (a) there is not an offer and acceptance of the contract (b) there is no payment of the premium (c) the policyholder is not of legal age (d) the insured makes a material misrepresentation when applying for coverage
(e) a, b, and c

9. One afternoon when leaving Curris Business building you venture into the Gilchrist parking lot and are run into by a hit and run driver. You sustain a broken arm and go to Covenant Hospital for treatment, under these circumstances medical costs: (a) would be reimbursed under your personal auto policy (b) would be paid by UNI Student Health Clinic (c) would have been covered under the hit and run driver's personal auto policy, but because you don't know who that is, you will have to pay your own medical costs (d) would be fully covered under the Iowa High Risk Auto Insurance Pool (e) would be covered under the Iowa worker's comp. plan

10. After graduation from UNI, your parents decide to have a party at the local Elks Club for friends and family. At the party the invited guests are attending, a problem arises when the shrimp sets out too long and a number of people become sick. Your cousin, who has been residing for past year in your parent's home, sustains injuries requiring that his stomach be pumped. He decides to sue you and your family. Under these circumstances your parent's HO policy will: (a) pay your cousin's medical costs up to $2,000 provided he files a claim within 2 years from the time of the party (b) under Section II of the HO policy defend your parents and pay whatever liability judgment is awarded up to the limits of the policy (d) not provide liability coverage or pay medical costs because your cousin is a named insured under your parent's policy (e) pay medical costs, but not provide liability coverage for your parents

11. The definition of disability insurance which is the most restrictive and the one used by Social Security to determine benefits states a person is disabled if: (a) they can not engage in the occupation for which they were trained (b) they can not engage in any occupation (c) they are unable to perform skills for which they might be trained (d) they are not employed and are unable to work (e) they are not able to work because of workplace related injury

12. In order to establish negligence for purposes of assessing liability, a plaintiff must show all of the following EXCEPT: (a) there was a violation of some law (b) a legal duty to protect existed (c) an injury directly resulted from a breach of duty (d) the defendant did not act reasonably (e) the defendant breached a legal duty

13. On Wednesday, shortly after class you go over to the Maucker Union and buy a large can of pop. Unfortunately, you find that the pop bottle has a small rat in it. On the basis of this new discovery, you decide to sue everyone and anyone responsible. Under such circumstances your best argument is: (a) assumption of risk (b) contributory negligence (c) res ipsa loquitur (d) comparative negligence (e) utmost good faith

14. The purpose of the waiting period in a disability policy is to: (a) to eliminate payments for minor illness and sickness (b) to eliminate payment for disability (c) to provide consequential loss coverage in the aftermath of injury (d) to reduce the time it takes for an employer to make a payment for disability (e) to integrate sick leave time with the on set of disability to allow the employee to pay the most for replacing lost income due to disability

15. Joe the Plumber, in the midst of our robust economy, has decided to convert his garage into a Harley Davidson repair shop. One night when welding a muffler, sparks fly setting the garage on fire. As a consequence, Jack's fully restored 1991 Lexus SC 400 is toast. Jack files for reimbursement on the Lexus under his HO-2 policy and under these circumstances: (a) the HO-policy pays nothing because of the business exclusion (b) the HO-policy pays nothing because Jack should file under his personal auto policy (c) the HO-policy pays for the Lexus because it was being stored in the garage and the fire was a covered peril (d) if Jack files under his personal auto policy, he would not be reimbursed since he only has collision coverage (e) Jack is entitled to collect under both his HO and personal auto policies

16. Underinsured motorist coverage is an endorsement to the PAP that pays only when the insured becomes involved in an accident where: (a) the other driver is found liable and has no insurance (b) the other driver is not found liable and has no insurance (c) the other driver is responsible, but not liable, however you do not have sufficient collision coverage to pay for all your losses (d) the other driver is liable, has some insurance but not enough to pay for the liability damages assessed in court (e) you do not have sufficient liability insurance to cover losses that you become liable for in damaging another's car

17. Assume you have split limits on your personal auto policy that provides coverage as 25/50/10. You get into an auto accident where you are found to be liable to three people. The first person sustains personal injuries of $10,000, and damage to their own car of $8,000. The second person has personal injuries of $20,000, and the third person has personal injuries of $30,000. In this particular case the insurer will pay [assume that in this case there is no deductible]: (a) $30,000 (b) $38,000 (c) $50,000 (d) $58,000 (e) $68,000

18. What type of life insurance contract would a person age 45 choose if they were primarily interested in accumulating funds on a tax deferred basis with investment funds being deployed in equity securities: (a) a variable life insurance policy (b) a term insurance policy (c) a variable annuity (d) a and c (e) a joint and survivor annuity

19. A type of managed care health plan that requires participants choose doctors, clinics, and hospitals from a large list of approved providers, generally includes drug benefits, has relatively small co-insurance and co-payments, and focuses on the cost and quality of health care services is called a: (a) preferred provider plan (b) an indemnity plan (c) HMO stand-alone facility (d) HMO network model (e) UNI Health Clinic

20. A type of retirement plan where employees and employers annual place money into an account up until the time of retirement, and then at retirement an employee receives annual income on the basis of a formula [such as 65% of the employee's final salary] is called a: (a) variable life annuity plan (b) defined benefit plan (c) defined contribution plan (d) cash refund retirement plan (e) defined installment retirement program

21. You own a home which is currently appraised for $150,000 [it was worth $200,000 last year, but given the current "great depression" real estate values have tanked]. Seeing that your home is no longer valued as much, and wanting to reduce your insurance expenses, you decide to purchase on $100,000 in coverage on your HO-2 policy. How much would your insurer pay on a $10,000 loss given that your HO-policy has an 80% co-insurance clause? (a) $10,000 (b) $0, a co-insurance clause requires that you keep insurance equivalent to the current value of the home which would be $150,000 (c) $5,000 (d) $7,500 (e) $8,333

22. An insurer, as part of its advanced risk management planning, would want to do the following if there was a concern about rising interest rates: (a) shorten the maturity structure of its fixed income investments (b) lengthen the maturity structure of its fixed income investments (c) institute a short hedge against its interest rate position in the futures market (d) sell its long maturity fixed income assets and convert to short maturity current assets (e) a, c, and d

23. A couple is entering retirement where one of the spouses is going to receive annual income from an employer retirement plan. The retired spouse must choose an annuity when going into retirement. If this couple is concerned that one of them will die, leaving the other with not enough to live on, they should choose the following annuity: (a) life annuity (b) joint and survivor annuity (c) 5 year certain and life annuity (d) 10 year certain and life annuity (e) 10 year term insurance

24. On Thanksgiving Day, a UNI finance professor goes out in his 2002 SUV on a hunting trip to What Cheer. This time of year, you can hunt turkey in the woods as opposed to the grocery store. Unfortunately, after seeking turkey in the woods most of the morning, the professor finds no turkeys [other than himself] and decides to return home via highway 380 [i.e., he's lost]. Shortly after passing Brandon, a Turkey flies up from the road and comes through his windshield. Damage to the SUV is extensive, particularly to the interior of the vehicle and the best estimate for the cost to repair is $6,000. The professor has a personal auto policy with $300,000 in liability, $ 10,000 in collision and $5,000 in non-collision coverages, with a $1,000 deductible. Given these happy circumstances [he did catch a turkey] how much will the professor's insurance company pay on the $6,000 of physical damages? (a) $6,000 (b) $0, the personal auto policy excludes coverage when damage is due to wild animals (c) $4,000 (d) $10,000 since damage occurred as the result of a collision on the highway (e) the cost of the thanksgiving dinner under the policies indirect loss coverage

25. Which of the following annuities would provide the largest amount of income for an outlay of $10,000? (a) a joint and survivor annuity to a couple where the husband is age 55, and the wife is 50 (b) a life annuity to a male age 55 (c) a cash refund annuity to a female age 50 (d) a cash refund annuity to a male age 55 (e) an installment refund annuity to a female age 50 [hint: think heated seats]

26. The section of an insurance policy that provides information on who is covered, when coverage comes into exist and the amount of the premiums is called: (a) the Declarations Section (b) the Insuring Agreements Section (c) the Conditions Section (d) Section I (e) Section II

27. The coverage in the HO policy that insures buildings that are separated from the main dwelling by a clear space is called the: (a) Dwellings and Contents Coverage (b) Appurtenant Structures Coverage (c) Indirect Loss Coverage (d) Personal Property Coverage (e) Unattached Garage Coverage

28. The clause which allows an insurer to recover damages paid to an insured from a negligent third party is called: (a) subrogation (b) res ipsa loquitur (c) estoppel (d) ad valorem (e) dubito ergo sum

29. A provision in the life insurance contract which allows the owner of a policy to specify the method beneficiaries are to be paid out of the proceeds of the policy is called the: (a) beneficiary clause (b) non-forfeiture provision (c) settlement clause (d) guaranteed beneficiary option (e) extended benefit proceeds specification clause

30. A non-forfeiture option that allows the owner of a whole life insurance policy to use the cash value to purchase temporary insurance for an amount equivalent to the face amount on the whole life policy and pay no more premiums is called: (a) extended term insurance (b) reduced paid-up insurance (c) a reversionary term insurance (d) a variable fixed payment life option (e) universal life

31. When developing a risk management plan, the type of hazard best suited to loss control and prevention because it relates to the tendency of some insureds to be careless due to their ownership of an insurance policy is called: (a) the morale hazard (b) the moral hazard (c) a physical hazard (d) adverse selection (e)

32. The best method for handling objective risks where the frequency and severity of loss are both high is: (a) assumption (b) loss prevention (c) risk transfer or insurance (d) avoidance (e) hedging

33. The insurance principle that specifies an insured be paid no more than what it takes to be financial restored to the position the insured had prior to loss is called: (a) the principle of indemnity (b) adverse selection (c) direct loss compensation principle (d) co-insurance (e) the principle of financial estoppel

Answer Key for Sample Exam 2

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