

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. Loss prevention e. Risk avoidance
2. 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 and fundamental
3. Installing an theft alarm system in your home is an example of which one of the following: a. Loss control b. Consequential loss avoidance c. Risk retention d. Self-insurance e. Risk avoidance
4. Which of the following would NOT be 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. Potential loss of \$10,000 when investing in the stock market
 - e. All of the above are examples of pure risks
5. The principle of indemnity requires that:
 - a. The insured should receive a claim payment greater than the financial value of what was lost to encourage policy retention
 - b. The insured should be paid for the loss he suffers and no more
 - c. People who have accidents must pay for the losses that result
 - d. The insured must be paid the policy benefits that his or her premium has purchased
 - e. The insured is entitled to the face amount of the policy plus any paid-in premiums at the time of loss
6. Which of the following items reinforces the principal of indemnity? (a) actual cash value (b) proof of loss (c) subrogation (d) a, b, and c (e) only a and b
7. A waiver is: (a) the relinquishment of a known right by either the insured or insurer (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) the demonstration by one's actions of assent to an agreement (e) used to deny coverage only when the insurer suspects fraud

8. 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.

9. The goal of risk management is to: a. Minimize the cost of insurance to an individual or organization b. Make certain that uninsured losses do not occur c. Minimize the adverse effects of losses and uncertainty connected with pure risks d. Get the best buys in the field of insurance e. Eliminate financial loss

10. The risks most suited to treatment by assumption or self insurance, such as using a deductible, are those in which:

- a. The frequency of loss is high and the severity of loss is low
- b. The frequency of loss is low and the severity of loss is high
- c. The frequency of loss is high and the severity of loss is high
- d. The frequency of loss is low and the severity of loss is low
- e. None of above

11. A mutual insurer:

- a. is NOT a corporation
- b. is run by an attorney-in-fact
- c. allows policyholders to receive dividends and vote on members to the board of directors
- d. technically is a charitable organization
- e. has a number of shareholders who receive dividends

12. 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

13. Jack has an HO-2 policy and rents only the unattached converted garage, which is now a self-contained apartment to Judy, 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 other structure 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

14. Which of the following is NOT an exclusion under Section II of the Homeowners' policies?

- a. Liability assumed under any unwritten business contract
- b. Damage to physical owned by the insured
- c. Damage to landscaping on the insured property caused by fire from the turkey fryer exploding during Thanksgiving
- d. Liability arising out of an auto accident
- e. Liability arising out of the ownership or maintenance of the residence premises

15. If the insurance company cancels a homeowners' policy, the return of premium will be computed: a. On a short-rate basis b. A pro-rata basis c. There is no return of premium on a homeowner's policy d. The insurer has the option to use short-rate or pro-rata based on how many years the policyholder has paid in premiums e. A homeowners' policy cannot be canceled as long as the insured has paid the premium

16. According to the law of large numbers, which of the following is TRUE as the number of exposures increases?

- (a) future risk will increase
- (b) actual results will more closely approximate probable results
- (c) pure risk will increase as loss control measures increase
- (d) speculative risk will increase inversely with dynamic risk
- (e) the chance of loss decreases in proportion to the number of risk exposures

17. 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, with no deductible)

- a. \$70,000 b. \$78,000 c. \$58,000 d. \$50,000 e. \$48,000

18. In property insurance, coinsurance is: a. an agreement between two or more insurance companies to jointly cover a large risk 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 contractual agreement to discourage under-insurance e. a contractual agreement to prevent first-dollar coverage on small "nuisance" claims

19. Within the homeowners' policy, the mortgagee clause: a. creates a third party to the HO contract that maybe entitled to claim settlement in the event of an insured loss on the mortgaged home b. permits the insured to obtain a mortgage from the lender at the same loan rate as existed on the home prior to loss c. requires that the insurance company supply the insured with a mortgage in the event of an insured loss on the property d. stipulates that in the event of a total loss on the property, the insured can require an appraisal from the mortgagor to establish the appropriate amount for claim settlement removed from an old to a new residence e. establishes that should a insured peril occur, the mortgagor has a right to rescind the mortgage because of the increased risk of loss in the home

20. 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

21. The South-Eastern Underwriters Association Case:

- (a) reversed the Paul vs. Virginia decision
- (b) upheld the precedent set in Paul vs. Virginia, that insurance was interstate commerce
- (c) occurred in 1865 during the time of the Civil War and applied to those companies insuring soldiers
- (d) applied only to the 8 southeastern states filing suit in the case
- (e) involved a non-resident insurance agent selling non-admitted insurance

22. 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

23. 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 at the time of application for insurance, as well as, throughout the term of the insurance policy d. is a tool used to defraud policyholders e. never applies in the case of commercial insurance

24. A misrepresentation: (a) always voids a contract (b) makes a contract voidable if it is material (c) is also known as “concealment” (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. Which part of the insurance contract personalizes the coverage to the individual’s exposure? (a) the exclusions section of the standard contract (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

26. If Dick and Jane have a \$100,000 home and two \$100,000 fire insurance policies, how much can they collect in total from both policies following a \$30,000 fire loss in their home? (a) \$200,000 (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

27. 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 has a 80% coinsurance provision on Dick and Jane's HO policy. 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

28. 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 the other than collision coverage. The insured can recover from the insurer:
a. Full loss, less \$100 b. Nothing, but Bambi may be able to receive paid vet services under the insured's medical payments coverage c. Full loss d. Nothing, this damage is not covered E. \$600 less the \$100 deductible under the uninsured motorist physical damage coverage

29. 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

30. Which of the following would be **excluded** from the Personal Property Coverage [Coverage C] on an HO policy: : a. personal property lost when traveling from Cedar Falls to Hawaii on a United Airlines flight out of Chicago b. the loss of I-phone stolen from the front seat of your locked car in the Gallagher-Bluedorn parking lot c. loss of a HD-TV from your dorm room during Thanksgiving break d. loss of your watch outside the Louvre in Paris, France
e. none of the above

31. Underinsured Motorist (UM) coverage:
a. Is the same as the uninsured motorist coverage
b. Potentially pays the difference between the negligent driver's liability coverage amount and the injured party's UM limits
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

32. If I.M Speedy who has insurance, negligently injures an uninsured motorist doing \$40,000 damage, Speedy's Personal Auto Policy (PAP) will:
a. Pay under coverage A, liability b. Pay under coverage C, the uninsured motorist coverage
c. Pay under both coverage A and C d. Pay only under the larger of A or C, but not both
e. Pay nothing since an uninsured motorist should not have been driving in the first place

- 33.. The process under which a primary insurer cedes a portion of its insurance to another insurance carrier is called: a. a Reverse Swap Default coverage b. a Subrogated Excess Loss Insurance c. a Reinsurance Contract d. a Limited Whole Life Insurance e. a Second Party Contingent Claims Coverage
34. When settling a claim, an insurer will use the principle of proximate cause of loss to determine: (a) the primary insured peril in a chain of events resulting in loss (b) the last peril in a series of events leading to a liability claim (c) an approximate value of loss from an insured event (d) an estimate of post claim losses (e) an estimate of pre claim losses
35. When settling a property insurance claim, which of the following methods may an insurer choose to determine a settlement: (a) actual cash value (b) cost to repair (c) cost to replace (d) a and b (e) a, b, and c, plus insurable interest
36. A claims-made liability insurance contract: (a) pays for injuries suffered by the insured during the policy period (b) pays for defense costs only when an insured is sued, but does not pay for liability claims (c) pays for claims only when an insured is sued, but does not pay for defense costs (d) is designed to pay for claims filed against the insured during the policy period (e) is designed to pay for claims and defense costs associated with prior policy periods where liability has been established against the insured
37. Which claim settlement method would be appropriate in denying a claim on a homeowner's policy under the following circumstances? A renter, Jack Winterburn, having an HO-4 policy borrows a \$500 snow blower from his Aunt Sally [a very generous person]. One snowy evening after blowing snow Jack leaves the snow blower unlocked out on the driveway. The next morning the blower is gone and Jack files a theft claim under his HO-4 policy. In this case the insurer can deny the claim on the basis of: (a) the fact that Jack didn't rent the blower and the HO-4 policy only covers items that are being rented (b) the exclusions section to his policy, the coverage excludes the peril of theft (c) replacement cost, Jack did not carry replacement cost coverage and the snow blower needs to be replaced (d) actual cash value, the policy does provide recovery under theft, but in order to settle Jack needs to establish value which is not possible because he doesn't know how many years Aunt Sally's had the blower (e) insurable interest, Aunt Sally is the only person that has an insurable interest in the blower
38. The insuring principle that provides that when an insurer indemnifies an insured for loss due to the negligence of a third party, the insured is entitled to seek recovery of those amounts from the negligent party is called: (a) adverse selection (b) subrogation (c) utmost good faith (d) claims arbitration (e) proof of loss

39. Which of the following is **not likely** to be found on the DECLARATIONS page to an insurance policy? (a) conditions suspending coverage (b) identity of the named insured (c) a list of coverage provided by the contract (d) the time when coverage begins (e) the amount of the premium for the policy
40. A small insurer has expanded into a new line of coverage resulting in the sale of 2 year insurance policies for total premium income of \$120,000. In the first year the policies generate \$80,000 in earned premiums to the insurer. The remaining \$40,000 is earned in the second year. First year commissions and administrative expenses amount to \$35,000, and the estimated claim costs are \$37,500 each policy year. Find the statutory underwriting position of this insurer in the first year of business: (a) -\$17,500 (b) -\$7,500 (c) -\$5,000 (d) \$7,500 (e) \$17,500

Answers to sample questions: 1. A 2. C 3. A 4. D 5. B
 6. D 7. A 8. D 9. C 10. D 11. C 12. B 13. C 14. E
 15. B 16. B 17. A 18. D 19. A 20. D 21. A 22. D 23. C
 24. B 25. C 26. D 27. B [$30,000/40,000 \times 12,000$] 28. C 29. C
 30. D 31. B 32. A 33. C 34. A 35. E 36. D 37. E 38. B
 39. A 40. D