



Faculty of Commerce

Sta., Math., and Insurance Department

Questions and Answers



Insurance and its Mathematics

2th Year English Section

Prepared

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Chapter 1: Risk

1) Traditionally, risk has been defined as

- A) any situation in which the probability of loss is one.
- B) any situation in which the probability of loss is zero.
- C) uncertainty concerning the occurrence of loss.
- D) the probability of a loss occurring.

Answer: C

2) Objective risk is defined as

- A) the probability of loss.
- B) the relative variation of actual loss from expected loss.
- C) uncertainty based on a person's mental condition or state of mind.
- D) the cause of loss.

Answer: B

3) Uncertainty based on a person's mental condition or state of mind is known as

- A) objective risk.
- B) subjective risk.
- C) objective probability.
- D) subjective probability.

Answer: B

4) The long-run relative frequency of an event based on the assumption of an infinite number of observations with no change in the underlying conditions is called

- A) objective probability.
- B) objective risk.
- C) subjective probability.
- D) subjective risk.

Answer: A

5) An individual's personal estimate of the chance of loss is

- A) an objective probability.
- B) an objective risk.
- C) a subjective probability.
- D) an *a priori* probability.

Answer: C

6) A peril is

- A) a moral hazard.
- B) the cause of a loss.
- C) a condition which increases the chance of a loss.
- D) the probability that a loss will occur.

Answer: B

7) An earthquake is an example of a

- A) moral hazard.
- B) peril.
- C) physical hazard.
- D) objective risk.

Answer: B

- 8) Dense fog that increases the chance of an automobile accident is an example of a
- A) speculative risk.
 - B) peril.
 - C) physical hazard.
 - D) moral hazard.

Answer: C

- 9) Faking an accident to collect insurance proceeds is an example of a
- A) physical hazard.
 - B) objective risk.
 - C) moral hazard.
 - D) morale hazard.

Answer: C

- 10) Indifference to loss because of the existence of insurance is an example of a
- A) physical hazard.
 - B) objective probability.
 - C) moral hazard.
 - D) morale hazard.

Answer: D

- 11) Taylor Tobacco Company is concerned that the company may be held liable in a court of law and ordered to pay a large damage award. The characteristics of the judicial system that increase the frequency and severity of losses are known as
- A) moral hazard.
 - B) particular risk.
 - C) speculative risk.
 - D) legal hazard.

Answer: D

- 12) A phrase that encompasses all of the major risks faced by a business firm is
- A) financial risk.
 - B) speculative risk.
 - C) enterprise risk.
 - D) pure risk.

Answer: C

- 13) Which of the following statements about financial risk is (are) true?
- I. Enterprise risk does not include financial risk.
 - II. Financial risk is easily addressed through the purchase of insurance.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: D

- 14) Which of the following is a reason why premature death may result in economic insecurity?
- I. Additional expenses associated with death may be incurred.
 - II. The income of the deceased person's family may be inadequate to meet its basic needs.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: C

- 15) Which of the following are often consequences of long-term disability?
- I. Continuing medical expenses
 - II. Loss or reduction of employee benefits
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: C

- 16) All of the following are examples of direct property losses EXCEPT
- A) the theft of a person's jewelry.
 - B) the destruction of a firm's manufacturing plant by an earthquake.
 - C) the cost of renting a substitute vehicle while a collision-damaged car is being repaired.
 - D) the vandalism of a person's automobile.

Answer: C

- 17) The extra expense incurred by a business to stay in operation following a fire is an example of a(n)
- A) fundamental risk.
 - B) speculative risk.
 - C) direct loss.
 - D) indirect loss.

Answer: D

- 18) Loss control includes which of the following?
- I. Loss reduction
 - II. Loss prevention
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: C

- 19) Following good health habits can be categorized as
- A) loss prevention.
 - B) loss retention.
 - C) noninsurance transfer.
 - D) personal insurance.

Answer: A

20) All of the following are burdens to society because of the presence of risk EXCEPT

- A) The size of an emergency fund must be increased.
- B) Individuals may profit from accepting a speculative risk.
- C) Society is deprived of certain goods and services.
- D) Mental fear and worry are present.

Answer: B

21) Loss control includes which of the following?

- I. Loss reduction
 - II. Loss prevention
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: C

22) Following good health habits can be categorized as

- A) loss prevention.
- B) loss retention.
- C) noninsurance transfer.
- D) personal insurance.

Answer: A

23) Which of the following statements about liability risks is (are) true?

- I. Future income and assets can be attached to pay judgments if inadequate insurance is carried.
 - II. There is an upper limit on the amount of loss.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: A

24) From the insured's perspective, the use of deductibles in insurance contracts is an example of

- A) risk transfer.
- B) loss control.
- C) risk avoidance.
- D) risk retention.

Answer: D

25) The use of fire-resistive materials when constructing a building is an example of

- A) risk transfer.
- B) loss control.
- C) risk avoidance.
- D) risk retention.

Answer: B

Chapter 2: Risk Management

1) Risk management is concerned with

- A) the identification and treatment of loss exposures.
- B) the management of speculative risks only.
- C) the management of pure risks that are uninsurable.
- D) the purchase of insurance only.

Answer: A

2) A situation or circumstance in which a loss is possible, regardless or whether a loss occurs, is called a

- A) deductible.
- B) loss exposure.
- C) loss avoidance.
- D) peril.

Answer: B

3) All of the following are risk management objectives prior to the occurrence of loss EXCEPT

- A) analysis of the cost of different techniques for handling losses.
- B) continuing operations after a loss.
- C) reduction of anxiety.
- D) meeting externally imposed obligations.

Answer: B

4) Preloss objectives of risk management include which of the following?

- I. Preparing for potential losses in the most economical way.
 - II. Reduction of anxiety.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: C

5) A risk manager is concerned with

- I. Identifying potential losses.
 - II. Selecting the appropriate techniques for treating losses.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: C

6) Sources of information that can be used by a risk manager to identify pure loss exposures include all of the following EXCEPT

- A) risk analysis questionnaires.
- B) currency exchange rates.
- C) physical inspections.
- D) past losses.

Answer: B

- 7) Loss severity is defined as the
- A) probable size of the losses which may occur during some period.
 - B) probable number of losses which may occur during some period.
 - C) probability that any particular piece of property may be totally destroyed.
 - D) probability that a liability judgment may exceed a firm's net worth.

Answer: A

- 8) Loss frequency is defined as the
- A) probable size of the losses that may occur during some period.
 - B) probable number of losses that may occur during some period.
 - C) probability that any particular piece of property may be totally destroyed.
 - D) probability that a liability judgment may exceed a firm's net worth.

Answer: B

- 9) The worst loss that could ever happen to a firm is referred to as the
- A) maximum possible loss.
 - B) maximum probable loss.
 - C) frequency of loss.
 - D) severity of loss.

Answer: A

- 10) The worst loss that is likely to happen is referred to as the
- A) maximum possible loss.
 - B) maximum probable loss.
 - C) frequency of loss.
 - D) severity of loss.

Answer: B

- 11) All of the following statements about avoidance are true EXCEPT
- A) Certain loss exposures are never acquired.
 - B) Certain loss exposures may be abandoned.
 - C) The chance of loss for certain loss exposures may be reduced to zero.
 - D) It can be used for any loss exposure facing a firm.

Answer: D

- 12) Abandoning an existing loss exposure is an example of
- A) avoidance.
 - B) retention.
 - C) noninsurance transfer.
 - D) insurance transfer.

Answer: A

- 13) Which of the following conditions is (are) appropriate for using retention?
- I. Losses are difficult to predict.
 - II. The worst possible loss is not serious.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: B

14) Which of the following statements about retention levels is (are) true?

- I. A common rule of thumb is that a firm's maximum retention can be equal to 100 percent of its earnings before taxes.
 - II. A financially strong firm can have a higher retention level than a firm whose financial position is weak.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: B

15) All of the following statements about captive insurers are true EXCEPT

- A) They may act as a profit center by insuring parties other than the parent company.
- B) They provide a way to obtain types of insurance that may be unavailable from commercial insurers.
- C) They increase the volatility of the parent company's earnings.
- D) They make it easier for a firm to have access to reinsurance.

Answer: C

16) Which of the following statements about self-insurance is (are) true?

- I. It is a form of planned retention.
 - II. State law usually prohibits its use for workers compensation.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: A

17) All of the following are potential advantages of retention EXCEPT

- A) lower expenses.
- B) increased cash flow.
- C) encouragement of loss prevention.
- D) protection from catastrophic losses.

Answer: D

18) A restaurant owner leased a meeting room at the restaurant to a second party. The lease specified that the second party, not the restaurant owner, would be responsible for any liability arising out of the use of the meeting room, and that the restaurant owner would be "held harmless" for any damages. The restaurant owner's use of the hold-harmless agreement is an example of

- A) retention.
- B) self-insurance.
- C) insurance.
- D) noninsurance transfer.

Answer: D

19) All of the following are disadvantages of noninsurance transfers EXCEPT

- A) The party to whom the potential loss is transferred may be unable to pay.
- B) The transfer may fail because the contract language is ambiguous.
- C) The only potential losses that can be transferred are those that are not commercially insurable.
- D) The noninsurance transfer may be costly.

Answer: C

- 20) ABC Insurance retains the first \$1 million of each property damage loss and purchases insurance for that part of any property loss that exceeds \$1 million. The insurance for property losses above \$1 million is called
- A) excess insurance.
 - B) liability insurance.
 - C) coinsurance.
 - D) primary insurance.

Answer: A

- 21) Which of the following statements about the use of deductibles is (are) true?

- I. They represent risk retention by insurance purchasers.
 - II. They tend to increase the cost of adjusting small claims.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: A

- 22) Which of the following statements about an excess insurance plan is true?

- A) The insurer does not participate in a loss until it exceeds the amount the firm has decided to retain.
- B) The insurer pays first up to some specified level; the insured then pays all losses exceeding the insurer's retention level.
- C) Losses in excess of a specified amount are not covered.
- D) The insured and insurer share equally in any loss that occurs.

Answer: A

- 23) Factors a risk manager must consider in selecting an insurer include which of the following?

- I. The availability of risk management services.
 - II. The financial strength of the insurer.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: C

- 24) An insurance policy specifically written and designed to meet the needs of an insurance purchaser is called a(n)

- A) manuscript policy.
- B) bureau policy.
- C) standard policy.
- D) excess policy.

Answer: A

- 25) Which of the following types of loss exposures are best handled by the use of avoidance?

- A) low-frequency, low-severity
- B) low-frequency, high-severity
- C) high-frequency, low-severity
- D) high-frequency, high-severity

Answer: D

Chapter 3: Insurance

1) All of the following are characteristics of insurance EXCEPT

- A) risk avoidance.
- B) pooling of losses.
- C) payment of fortuitous losses.
- D) indemnification.

Answer: A

2) Which of the following is implied by the pooling of losses?

- A) sharing of losses by an entire group
- B) inability to predict losses with any degree of accuracy
- C) substitution of actual loss for average loss
- D) increase of objective risk

Answer: A

3) According to the law of large numbers, what happens as the number of exposure units increases?

- A) Actual results will increasingly differ from probable results.
- B) Actual results will more closely approach probable results.
- C) Fundamental risk will decrease.
- D) Objective risk will increase.

Answer: B

4) According to the law of large numbers, what should happen as an insurer increases the number of units insured?

- A) The amount the insurer expects to pay in claims should decrease.
- B) Underwriting expenses should decrease.
- C) Actual results will more closely approach expected results.
- D) The insurer's profitability should become more variable.

Answer: C

5) Characteristics of a fortuitous loss include which of the following?

- I. The loss is certain to occur.
 - II. The loss occurs as a result of chance.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: B

6) From the viewpoint of the insurer, all of the following are characteristics of an insurable risk EXCEPT

- A) The loss must be accidental.
- B) The loss should be catastrophic.
- C) The premium must be economically feasible.
- D) There must be a large number of exposure units.

Answer: B

- 7) From the standpoint of the insurer, all of the following are characteristics of an insurable risk EXCEPT
- A) The loss must be unintentional.
 - B) The chance of loss must be calculable.
 - C) The loss must be indeterminable.
 - D) The loss must be measurable.

Answer: C

- 8) Why is a large number of exposure units generally required before a pure risk is insurable?
- A) It prevents the insurer from losing money.
 - B) It eliminates intentional losses.
 - C) It minimizes moral hazard.
 - D) It enables the insurer to predict losses more accurately.

Answer: D

- 9) The requirement that losses should be accidental and unintentional in order to be insurable results in which of the following?
- I. Decrease in moral hazard
 - II. More accurate prediction of future losses
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: C

- 10) Which of the following is implied by the requirement that a loss should be determinable and measurable to be insurable?
- I. The loss must be definite as to place.
 - II. The loss must be definite as to amount.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: C

- 11) Methods by which insurers may minimize or avoid catastrophic losses include which of the following?
- I. The use of reinsurance
 - II. Concentrating coverage written in one geographic region
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: A

- 12) Which of the following types of risks best meets the requirements for being insurable by private insurers?
- A) market risks
 - B) property risks
 - C) financial risks
 - D) political risks

Answer: B

- 13) Reasons why market, financial, and production risks are often uninsurable include which of the following?
- I. The potential to produce a catastrophic loss is great.
 - II. The chance of loss cannot be accurately estimated.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: C

- 14) Which of the following types of risks is normally uninsurable by private insurers?
- A) personal risks
 - B) property risks
 - C) liability risks
 - D) market risks

Answer: D

- 15) Which of the following is a result of adverse selection?
- A) The insurer's financial results will be substantially improved.
 - B) Persons most likely to have losses are also most likely to seek insurance at standard rates.
 - C) It is unnecessary for the insurance company to use underwriting.
 - D) Insurance can be written only by the federal government.

Answer: B

- 16) The tendency for unhealthy people to seek life or health insurance at standard rates is an example of
- A) moral hazard.
 - B) fundamental risk.
 - C) morale hazard.
 - D) adverse selection.

Answer: D

- 17) Which of the following statements regarding insurance and gambling is (are) true?
- I. Insurance is used to handle existing pure risks, while gambling creates a new speculative risk.
 - II. Insurance usually involves risk avoidance, while gambling typically involves only risk reduction.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: A

- 18) In addition to marketing life insurance, life insurers typically sell which of the following products?
- I. Retirement annuities
 - II. Disability income insurance
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: C

- 19) Inland marine insurance provides coverage for
- A) goods being shipped on land.
 - B) premature death of members of the armed forces.
 - C) goods being shipped on ocean-going vessels.
 - D) liability exposures of nonprofit organizations.

Answer: A

- 20) All of the following are classified as casualty insurance EXCEPT
- A) life insurance.
 - B) general liability insurance.
 - C) workers compensation insurance.
 - D) burglary and theft insurance.

Answer: A

- 21) Which of the following is a form of casualty insurance?
- A) fire insurance
 - B) general liability insurance
 - C) inland marine insurance
 - D) ocean marine insurance

Answer: B

- 22) The term "multiple-line insurance" is used to describe a type of insurance that combines which of the following coverages into a single contract?
- A) workers compensation and health insurance
 - B) life and disability insurance
 - C) property and casualty insurance
 - D) pensions and annuities

Answer: C

- 23) All of the following are benefits to society that result from insurance EXCEPT
- A) less worry and fear.
 - B) elimination of moral hazard.
 - C) indemnification for loss.
 - D) loss prevention.

Answer: B

- 24) Which of the following statements about the insurance industry as a source of investment funds is (are) true?
- I. These funds result in a lower cost of capital than would exist in the absence of insurance.
 - II. These funds tend to promote economic growth and full employment.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: C

- 25) All of the following are social costs associated with insurance EXCEPT
- A) insurance company operating expenses.
 - B) fraudulent claims.
 - C) inflated claims.
 - D) increased cost of capital.

Answer: D

Chapter 5: Legal Principles of Insurance

1) Fundamental purposes of the principle of indemnity include which of the following?

- I. To reduce physical hazards.
 - II. To prevent the insured from profiting from insurance.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: B

2) Which of the following is a fundamental purpose of the principle of indemnity?

- A) to reduce moral hazard
- B) to minimize physical hazards
- C) to settle property insurance losses on a replacement cost basis
- D) to require deductibles in all property insurance policies

Answer: A

3) Sam's stereo was destroyed by a fire. The stereo cost \$1200 when it was purchased, but a similar new stereo now costs \$1800. Assuming the stereo was 50 percent depreciated, what is the actual cash value of Sam's loss?

- A) \$600
- B) \$900
- C) \$1200
- D) \$1800

Answer: B

4) All of the following are exceptions to the principle of indemnity EXCEPT

- A) life insurance.
- B) valued policies.
- C) replacement cost property insurance.
- D) actual cash value property insurance.

Answer: D

5) Under which of the following rules is actual cash value determined by taking into consideration all relevant factors an expert would use to determine the value of the property?

- A) the circumstantial evidence rule
- B) the broad evidence rule
- C) the property indemnity rule
- D) the objective value rule

Answer: B

6) A total loss under a valued policy is settled on the basis of the

- A) market value of the loss.
- B) actual cash value of the loss.
- C) replacement value of the loss.
- D) amount of insurance covering the loss.

Answer: D

- 7) Which of the following statements describes how losses will be settled if a property insurance policy is written on a replacement cost basis?
- A) Losses are settled without the applicable deductible.
 - B) Losses are settled without a deduction for depreciation.
 - C) The insurer must replace the damaged or destroyed property in lieu of a cash settlement.
 - D) The policy is converted to a valued policy.

Answer: B

- 8) Which of the following statements about the principle of insurable interest is (are) true?
- I. It makes it difficult to measure the amount of an insured's loss.
 - II. It reduces moral hazard.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: B

- 9) All of the following will support an insurable interest for purposes of purchasing property and liability insurance EXCEPT
- A) ties of blood and marriage.
 - B) potential legal liability.
 - C) secured creditors.
 - D) a contract right.

Answer: A

- 10) Which of the following statements about an insurable interest in life insurance is (are) true?
- I. It is required of any person named as beneficiary.
 - II. It may result from a pecuniary (financial) interest, even if there is no relationship by marriage or blood.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: B

- 11) When must an insurable interest legally exist in life insurance?
- A) only at the time of the insured's death
 - B) only at the inception of the policy
 - C) only at the time the beneficiary is paid
 - D) both at the time of the insured's death and at the inception of the policy

Answer: B

- 12) When must an insurable interest legally exist in property insurance?
- A) only at the time of the loss
 - B) only at the inception of the policy
 - C) only at the time the loss settlement process takes place
 - D) both at the time of the loss and at the inception of the policy

Answer: A

- 13) Sue's office building was damaged by a fire caused by a careless tenant. After paying Sue for her loss, the insurance company sued the tenant to recover its loss. This suit is based on the principle of
- A) warranty.
 - B) insurable interest.
 - C) utmost good faith.
 - D) subrogation.

Answer: D

- 14) All of the following are basic purposes of subrogation EXCEPT
- A) to eliminate adverse selection.
 - B) to hold down the cost of insurance.
 - C) to prevent an insured from collecting twice for the same loss.
 - D) to hold the negligent person responsible for a loss.

Answer: A

- 15) Which of the following statements about subrogation is true?
- A) It is used primarily for losses paid under life insurance policies.
 - B) It allows the insurer to sue its own insured who is negligent.
 - C) The insured's right to collect benefits may be forfeited if the insured interferes with the insurer's rights after a loss.
 - D) The insurer is required to exercise its subrogation rights.

Answer: C

- 16) The principle of utmost good faith is supported by all of the following legal doctrines EXCEPT
- A) representations.
 - B) warranty.
 - C) subrogation.
 - D) concealment.

Answer: C

- 17) What is the legal significance of a material concealment by an insurance applicant?
- A) The contract is automatically voided from its inception.
 - B) The contract is voidable at the insurer's option.
 - C) Loss payments are reduced by the degree of the concealment.
 - D) The insurer is immediately entitled to a higher premium.

Answer: B

- 18) What is the legal significance of a material misrepresentation in an insurance application?
- A) The contract is automatically voided from its inception.
 - B) The contract is voidable at the insurer's option.
 - C) Loss payments are reduced by the degree of the misrepresentation.
 - D) The insurer is immediately entitled to a higher premium.

Answer: B

- 19) A false statement made by an applicant for insurance is an example of a
- A) concealment.
 - B) breach of warranty.
 - C) lack of offer and acceptance.
 - D) misrepresentation.

Answer: D

- 20) Which of the following statements about an insurance warranty is (are) true?
- I. It is part of the insurance contract.
 - II. Statements made by an insurance applicant are considered warranties rather than representations.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: A

- 21) David lives in an apartment in a high-crime area. In order to obtain physical damage insurance on his car, David promised to park the car in a garage with 24-hour security. This agreement, which was incorporated into the insurance contract, is an example of a
- A) representation.
 - B) unilateral contract.
 - C) contract of adhesion.
 - D) warranty.

Answer: D

- 22) Which of the following statements about offer and acceptance for insurance contracts is true?
- A) In property and liability insurance, agents typically do not have the authority to bind coverage.
 - B) In life insurance, the agent can usually accept an offer by immediately binding coverage.
 - C) In property insurance, the offer and acceptance are usually in writing but may be oral.
 - D) In life insurance, the offer is merely the promise to pay the first premium.

Answer: C

- 23) Chris applied for life insurance and paid the first premium on Monday. She was given an insurability premium receipt which specified that coverage was effective on the date of the application or the date of the medical exam, whichever is later. She took the medical exam the following Thursday. She was found to be in perfect health. On which day was her coverage effective?
- A) on Monday, when she completed the application and paid the first premium
 - B) on Wednesday, two days after completing the application and paying the first premium
 - C) on Thursday when she passed the medical exam
 - D) on Saturday, two days after passing the medical exam

Answer: C

- 24) Which of the following statements about consideration in an insurance contract is (are) true?
- I. The insured's total consideration is submission of a completed application.
 - II. The insurer's consideration is the promise to do those things specified in the policy.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: B

- 25) A contract in which the values exchanged are not equal because chance is involved is called a(n)
- A) contract of adhesion.
 - B) unilateral contract.
 - C) conditional contract.
 - D) aleatory contract.

Answer: D

Chapter 5: Insurance Company Operations

1) The function of an actuary is to

- A) adjust claims.
- B) determine premium rates.
- C) negotiate reinsurance treaties.
- D) invest insurance company assets.

Answer: B

2) Insurers obtain data which can be used to determine rates from

- A) pricing pools.
- B) insurance advisory organizations.
- C) banks.
- D) reciprocal exchanges.

Answer: B

3) Which of the following statements about underwriting policy is (are) true?

- I. A company must establish an underwriting policy consistent with company objectives.
 - II. Underwriting policy is usually subjective and allows the underwriter considerable flexibility with respect to lines written and forms used.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: A

4) All of the following statements about underwriting standards are true EXCEPT

- A) The purpose of underwriting standards is to reduce adverse selection against the insurer.
- B) The underwriter should select only those insureds who are expected to have no losses.
- C) The underwriter should select a book of business so that there is a proper balance within each rate classification.
- D) Equitable rates should be charged so that each group of policyowners pays its own way in terms of losses and expenses.

Answer: B

5) The underwriting process begins with the

- A) agent.
- B) desk underwriter.
- C) inspection report.
- D) acceptance of the application.

Answer: A

6) Common sources of underwriting information for life and health insurance include all of the following EXCEPT

- A) the application.
- B) a physical examination.
- C) the Medical Information Bureau.
- D) the applicant's income tax return.

Answer: D

- 7) If an underwriter suspects moral hazard, the underwriter may ask an outside firm to investigate the applicant and make a detailed report to the insurer. This report is called a(n)
- A) inspection report.
 - B) application.
 - C) M.I.B. report.
 - D) agent's report.

Answer: A

- 8) One source of life and health insurance underwriting information is an organization that life and health insurance companies can join. As a member, life and health insurance companies report health impairments of applicants, and this information is shared with member companies. Although the information is shared, the underwriting decision of the member company is not disclosed. What is this organization called?
- A) Fair Isaac Corporation (FICO)
 - B) Medical Information Bureau (MIB)
 - C) National Association of Insurance Commissioners (NAIC)
 - D) National Association of Mutual Insurance Companies (NAMIC)

Answer: B

- 9) Factors that may result in more restrictive underwriting decisions include which of the following?
- I. Inadequate rates.
 - II. The unavailability of reinsurance at favorable terms.
- A) I only
 - B) II only
 - C) both I and II
 - D) neither I nor II

Answer: C

- 10) All of the following are functions of the marketing department of an insurance company EXCEPT
- A) to advertise the insurer's products.
 - B) to develop new products.
 - C) to identify production goals.
 - D) to make final underwriting decisions.

Answer: D

Chapter 7&8 Mortality tables & Net Single Premium

1- Probability that a person of age x survives up to year $x+1$ is:

- (A) P_x (B) q_x
(C) ${}_n d_x$ (D) ${}_n q_x$

2- Number of deaths which occur in each age interval is:

- (A) P_x (B) q_x
(C) ${}_n d_x$ (D) ${}_n q_x$

3- The probability of a person of age x will die in n years following the attainment age $x+m$ is:

- (A) ${}_m / q_x$ (B) q_x
(C) ${}_n d_x$ (D) ${}_{m/n} q_x$

4- The probability of a person of age x will die in the year following the attainment age $x+n$ is equal to:

- I. d_{x+n+1} / l_x
II. $(l_{x+n} - l_{x+n+1}) / l_x$
(A) I Only (B) II Only
(C) Both I and II. (D) Neither I nor II

5- ${}_{m/n} q_x$ is equal to:

- I. d_{x+n+m} / l_x
II. ${}_m p_x - {}_{m+n} p_x$
(A) I Only (B) II Only
(C) Both I and II (D) neither I nor II

6- The net single premium for a 3-year term policy for, sum insured \$100,000, issued to a female aged 30, interest rate 6% annually is:

- (A) \$ 2142 (B) \$3142
(C) \$214 (D) \$314

7- The third year net premium of for a whole life policy, if: the sum insured is \$200,000, issued to a person aged 40, and the interest rate 6.5% annually) is:

- (A) \$81905 (B) \$176338
(C) \$185345 (D) \$163810

8- The net single premium of for a 3-year endowment policy, sum insured \$100,000, issued to a female aged 30, and interest rate 6% annually is:

- (A) > \$2000 (B) < \$2000
 (C) \$ 2142 (D) \$ 1214

Questions from 9-21: The following is a part of mortality table:

X	L_x	d_x	q_x	p_x
59	(1)	85	(2)	(3)
69	180	(4)	(5)	(6)
79	(7)	50	0.5	(8)
89	50	(9)	0.6	(10)
99	20	(11)	(12)	(13)

9- (1) is equal:

- (A) 95 (B) 130
 (C) 265 (D) 165

10- (2) is equal:

- (A) 0.32075 (B) 0.4444
 (C) 85 (D) 265

11- (3) is equal:

- (A) 0.5555 (B) 180
 (C) 0.4000 (D) 0.67925

12- (4) is equal:

- (A) 180 (B) 80
 (C) 0.5000 (D) 165

13- (5) is equal:

- (A) 0.5555 (B) 80
 (C) 0.4444 (D) 180

- 14- (6) is equal:
(A) 0.4444 (B) 0.5555
(C) 1 (D) 0.0000
- 15- (7) is equal:
(A) 50 (B) 0.6000
(C) 100 (D) 0.4000
- 16- (8) is equal:
(A) 0.5555 (B) 0.6000
(C) 20 (D) 30
- 17- (9) is equal:
(A) 0.6666 (B) 50
(C) 0.4444 (D) 30
- 18- (10) is equal:
(A) 0.6000 (B) 0.4444
(C) 30 (D) 120
- 19- (11) is equal:
(A) 20 (B) 0.32075
(C) 30 (D) 0.23057
- 20- (12) is equal:
(A) 0.9999 (B) 20
(C) 30 (D) 1.0000
- 21- (13) is equal:
(A) 1.0000 (B) 20
(C) 0.0000 (D) 30

Questions 22- 26 State whether the following statement is TRUE (T) or FALSE (F):

22- The death rate for woman is higher than the death rate of man of same age.

(T)

(F)

23- Whole life insurance policy provides a fixed sum to the beneficiary at the time of the death of the insured if it occurs within policy period.

(T)

(F)

24-Pure endowment insurance policy provides the face amount to the beneficiary when the insured's death within the time if the policy.

(T)

(F)

25- A whole life insurance policy provides the face amount of the policy to the beneficiary according to insured's death whenever occurs.

(T)

(F)

25- A mortality table provides the probability of death as long as the probability of living for year intervals.

(T)

(F)