Risk Management and Insurance Sample Exam 2 Fall 2009

1. One significant 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 only a limited insurable interest in their property because of the mortgagee clause, whereas an individual has only a infinite insurable interest in anyone they choose to insured (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 temporary coverage and a claim payment only if the insured dies within a specified period of time is a: (1) endowment life insurance policy (b) term insurance policy (c) paid-up variable life policy (d) a limited pay universal life policy (e) reversionary single term life insurance policy

3. Unless noted otherwise, under an 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 cash or marketable securities (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 purchase the homeowner's loan and pay the proceeds to the homeowner who can then decide whether to pay off the original loan or refinance (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 UNI Volleyball game you remember a question you have relating to your personal auto policy. Before leaving the UNI parking lot, you review your PAP and discover that you only have collision coverage. As you draw near College Square you hit a stop light and come to rest opposite Carlos O'Kelley's. However, the driver in back of you is day dreaming [i.e., probably a college professor] and consequently gently hits you from behind causing minor damage to your bumper [$50 thank you very much]. Your car gets pushed into a truck in front of you. You lightly

bump into the Truck causing a toolbox on the rear deck lid to come crashing down on your hood. Under these circumstances the insurer will: (a) pay no damages on the hood because it is a non-collision loss not covered on your policy (b) allow you to sue the negligent driver [daydreaming professor] who hit your car from behind (c) pay partial damages on your car based on an estimate of the amount of damages caused by the negligent driver hit you from behind less the amount owed to the Truck driver (d) pay for all your damages because the proximate cause of loss was collision with another car (e) deny payment based on the principles of subrogation and res ipsa loquitur [the facts speak for themselves]

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) 10 year convertible term 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 policy (b) there is no payment of a 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

Answers: 1. C 2. B 3. D 4. A 5. D 6. C 7. E 8. E