# BASICS OF INSURANCE - PROPERTY & CASUALTY — QUIZ #1

**DIRECTIONS:** Each question is followed by four suggested answers. In each case, select the **one** that best answers the question.

1. All the following are true about insurance contracts, **except**:

    a. Insurance usually involves bilateral contracts
    b. Policies are usually personal contracts
    c. Each party must exchange some value
    d. In most cases, the insured has little or no control over the policy provisions

2. All the following are true about insurable risk, **except**:

    a. the loss must not be catastrophic in nature
    b. the loss must be large enough to create hardship
    c. the loss must not be definite and definable
    d. the law of large numbers should apply

3. All the following are parts of the insurance contract, **except**:

    a. Declarations
    b. Insuring Agreements
    c. Conditions
    d. Inclusions

4. Something that increases the chance of a peril occurring is known as a(n):

    a. deductible
    b. risk
    c. indemnity
    d. hazard

5. Representations are written or oral statements made by the applicant which:

    a. Are guaranteed to be true
    b. Are considered to be true to the best of the applicant's knowledge
    c. Are promises to pay all premiums when due
    d. Are immaterial to the actual acceptability of the insurance contract

6. When a person decides not to buy insurance because of the cost, what method of handling risk has been undertaken?

    a. Risk transfer
    b. Risk retention
    c. Risk avoidance
    d. Risk reduction

7. The insurance industry deals with those areas of risk where the chances of loss are:

    a. 100%
    b. 0%
    c. Anywhere between 0% and 100%
    d. None of the above

8. "Actual Cash Value" means:

    a. Original cost less depreciation
    b. Actual amount of cost to replace an item at today's cost value
    c. Replacement cost minus depreciation
    d. None of the above

9. An insurance policy is an aleatory contract which means:

    a. An act is exchanged for a promise
    b. Performance depends on the occurrence of an uncertain event
    c. Terms are drawn by the insurer and the insured has little or no control over content
    d. Insurance policies are personal contracts between the insured and insurer

10. An insured's right to seek damages from someone at-fault may be transferred to the insurer under the policy's:

    a. Assignment clause
    b. Indemnity clause
    c. Subrogation clause
    d. Replacement clause

11. The Law of Large Numbers:

    a. Prohibits insurance with extremely high premiums
    b. States that there must be an adequate spread of risk for insurance to be effective
    c. States that the more examples used to develop a statistic, the more reliable the statistic will be
    d. Actual benefits, expenses, and related actuarial liabilities

12. The concept of restoring the insured to approximately the same economic position occupied before the loss is called?

    a. Subrogation
    b. Indemnity
    c. Adhesion
    d. Estoppel

13. Which of the following is used to modify an insurance policy from its' original form?

    a. Declarations
    b. Conditions
    c. Endorsement
    d. Insuring agreement

14. An insurer formed under the law of a state of the United States other than the state where it is licensed, domiciled, and charted is:

    a. An alien insurer
    b. A domestic insurer
    c. A reciprocal insurer
    d. A foreign insurer

15. Careless driving because the driver knows she or he is insured is a:

    a. Moral hazard
    b. Morale hazard
    c. Legal hazard
    d. Physical hazard

16. Oily rags left to accumulate in the garage is a:

    a. Moral hazard
    b. Morale hazard
    c. Legal hazard
    d. Physical hazard

17. Insurance policies are contracts of adhesion, which means:

    a. Terms of the contract are drawn up by the insurer and the insured simply adheres to the terms
    b. A promise is exchanged for another promise and both parties may execute their obligations in the future
    c. Someone is made whole again by paying the actual loss while preventing any gain
    d. The performance depends on the occurrence of an uncertain event

18. It is assumed that any oral agreements made before contract formation were incorporated into the written contract. Once formed, earlier oral evidence will not be admitted in court to change or contradict the contract. This is known as:

    a. Waiver and Estoppel
    b. Entire Contract Rule
    c. Parol Evidence Rule
    d. Representations and Warranties

19. The two major types of insurers in the private sector are:

    a. Reciprocals and Service Plans
    b. Blue Cross and Blue Shield
    c. Stock and Mutual Companies
    d. Medicare and Social Security

20. A temporary contract of insurance that commits the insurer before a policy is issued is called a(n):

    a. appraisal
    b. account
    c. rating
    d. binder

21. A term that blocks all attempts to change conduct or reassert a right previously waived, and it usually applies after the other party has begun to rely on the conduct or waiver is known as:

    a. indemnity
    b. express authority
    c. underwriting
    d. estoppel

22. Which of the following is **NOT** an essential element of a binding contract?

    a. Offer and Acceptance
    b. Consideration
    c. It must be in writing
    d. Legal purpose

23. Which of the following is a type of risk exposure that the insurance companies seek to insure?

    a. Pure Risk
    b. Speculative Risk
    c. Minimal Risk
    d. Named Risk

24. Who is considered the first party to an insurance contract?

    a. Insured
    b. Insurer
    c. Agent
    d. Administrator

25. When a person installs burglar bars and a fire alarm system, what method of managing risks has been undertaken?

    a. Retention
    b. Avoidance
    c. Transfer
    d. Reduction