**AINS 101 Exam 1 Key**

**Question 1**

Which one of the following represents when all insureds share the costs of each others losses?

*Select one:*

A. Risk

B. Transfer

C. Pooling

D. Loss exposure

**Question 2**

Douvae complained about having to pay for car insurance over the last 5 years while never having an accident or needing to file a claim. She feels her car insurance has been unnecessary for her. However, her friend Brian tells her it’s still smart to have car insurance, because it will help manage her cash flows in the event she ever has an accident or needs to file a claim. Which one of the following examples best illustrates Brian’s point?

*Select one:*

A. Douvae needs her car to get to her job, and she needs her job to make car payments and pay for her car insurance.

B. When her car’s transmission goes out a month after the warranty expires, Douvae is faced with a $2,000 repair bill.

C. Douvae finds it difficult to come up with a $200 auto insurance premium every month.

D. When her car’s windshield breaks, Douvae has to pay only $100 of the $1000 cost of replacing it.

**Question 3**

A business owners policy is a type of

*Select one:*

A. Commercial insurance policy.

B. Personal property-casualty insurance policy.

C. Personal umbrella policy.

D. Life insurance policy.

**Question 4**

Bonaroo Industries experienced a robbery where unknown criminals stole valuable merchandise as well as destroyed manufacturing equipment necessary for the functioning of the business. Which one of the following insurance policies would pay for the replacement of valuable merchandise stolen as well as replacement of manufacturing equipment?

*Select one:*

A. Commercial package insurance

B. Personal general liability insurance

C. Personal umbrella insurance

D. Workers compensation insurance

**Question 5**

Which one of the following is an example of a Federal or State insurance plan?

*Select one:*

A. National Flood Insurance Program
B. Federal Forgot Payment Forgiveness Insurance Program
C. New York Public Theft Insurance Program
D. Statewide Sewer Accident Insurance Program

**D. Legislators find it more straightforward to invite and analyze bids from private insurers than to establish government plans.

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**Question 6**

The state of New Jersey implements a program to give needs based aid to low income residents who cannot afford car insurance but need to be able to drive for employment purposes. Which one of the following is the best rationale for this program?

*Select one:*

A. Private insurers face limited competition, and the state decreases competitive pressures by operating this type of plan.

B. Auto insurance for low income drivers is less profitable, and the program enables the state to increase profit margins for private insurers

C. Private insurers tend to focus on insuring medium to high income drivers, and the state helps make low income drivers more appealing to insure

D. Auto insurance is compulsory, and the program makes it possible for all drivers to have reasonably priced insurance.

**Question 7**

In an effort to reduce expenses, increase profitability, and reduce human errors; DubC Insurance Company decided to automate most of its commercial lines underwriting function.  The company now uses standardized application forms that are submitted electronically to corporate headquarters.  At headquarters, a computer with a scanner reads the applications.  The computer has been programmed with acceptable answers to the questions.  If the answers on the application are all acceptable, the policy is automatically issued.  Rejected applications are automatically forwarded to a human underwriter who reviews them.  The use of this technology has reduced the company's expense ratio by three and a half percent, and reduced the time it takes to issue a policy.  ABC Insurance Company's use of computers to evaluate applications electronically is an application of

*Select one:*

A. Radiant sensors.

B. Artificial intelligence.

C. Actuator technology.

D. Risk management information systems.

Question 8

ZK Company needed to make some changes to the accounting department and upper management within the company after 4 consecutive months of an overall bear market leading to a shareholder sell off. This is an example of which one of the following quadrants of risk?

*Select one:*

A. Operational risk

B. Strategic risk

C. Financial risk

D. Hazard risk

**Question 9**

Bob Insurance prides itself on its upstanding reputation through its commitment to small businesses commercial coverage needs over the past ten years. Which one of Bob’s actions over this time would best illustrate its continued commitment to maintaining its solvency?

*Select one:*

A. Bob Insurance is committed to branching out in the near future to include more coverages larger businesses in the market.

B. Bob Insurance maintains good relationships with it’s long-term customers and even provides loyalty discounts to ensure renewals year after year

C. Bob Insurance emphasizes that its insurance is readily available and accessible to customers in its service area that need it.
D. Bob Insurance keeps enough cash assets on hand to cover claims on policies long after it collected the premiums from customers.

**Question 10**

One of the reasons for insurance regulation is to prevent destructive competition. In which one of the following scenarios would destructive competition be exhibited?

*Select one:*

A. Red Insurance purposely writes its policies with complex terminology that can be misleading for customers that are unfamiliar with insurance

B. Yellow Insurance has had five straight years of record-setting low claims and has accumulated more than expected profits; it plans on the trend continuing and overspends on new short-term investments.
C. Green Insurance comes up with a new rate structure allowing “preferred customers” discounted policies when they continually renew year after year; Green eventually loses needed revenue but is rewarded by its competitors leaving the market.

D. Blue Insurance is trying to break into a specialized type of insurance market that is generally uncommon for most customers; Blue decides to price its coverages commensurate with other insurers offering completely different policies.

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**Question 11**

Chris is very lax about following insurance regulations and thinks his insurance company is too stringent on guidelines and compliance. Which one of the following will Chris find is accurate as he better understands why insurance is regulated?

*Select one:*

A. Insurance regulation protects customers by guaranteeing insurance is available and accessible to everyone who needs it.

B. The U.S. insurance industry is governed by federal laws and state laws that protect citizens by leveling the playing field for insurers and policyholders.

C. Insurance regulation focuses to the types of risks insurers may cover, but does not play a part in how they invest their profits.

D. Insurance regulation does not allow insurers from covering catastrophic occurrences so insurers can remain solvent.

**Question 12**

All of the following are categories of liabilities found on an insurer's balance sheet, EXCEPT:

*Select one:*

A. Policyholders' surplus

B. Loss

C. Unearned premium reserves

D. Loss and loss expense reserves

**Question 13**

Which one of the following is part of written premiums?

*Select one:*

A. Investment income

B. Outstanding claims

C. Policyholder’s surplus

D. Earned premiums

**Question 14**

Which one of the following is shown on the balance sheet of an insurer?

*Select one:*

A. Bonds

B. Premium Taxes

C. Net Underwriting Gain

D. Incurred losses

**Question 15**

The financial report for BDF Insurance contains the following information:

|  |  |  |  |
| --- | --- | --- | --- |
| Earned premiums |   | $ | 6,000,000 |
| Written premiums |   | $ | 12,000,000 |
| Incurred losses |   | $ | 6,000,000 |
| Incurred underwriting expenses |   | $ | 3,000,000 |

What is BDF Insurance's expense ratio?

*Select one:*

A. 25%

B. 40%

C. 50%

D. 100%

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**Question 16**

The financial report for Big Company Insurer contains the following information:

Earned premiums $5,000,000
Written premiums $10,000,000
Net investment income $7,000,000
Incurred Losses $3,000,000
Incurred underwriting expense $2,000,000

What is Big Company Insurer's expense ratio?

*Select one:*

A. 40%

B. 50%

C. 100%

D. 20%

**Question 17**

The main characteristics of an Exclusive Agency is that

*Select one:*

A. Broker represents the customer
B. The agency can only work with one type of broker
C. Th Insurer handles sales, underwriting and claims
D. The insurer often handles administrative functions, such as issuing policies, collecting premiums and processing claims

**Question 18**

Which of the following is not correct about independent Agents and Brokers

Select one:
A. Broker represents the customer
B. Agent represents one or more insurers
C. Independent agents and brokers own their expiration lists (lists that have policyholder info and expiration dates)
D. An insurer can independently solicit policyholders

**Question 19**

Distribution channels
Which of the following is incorrect about how insurance is marketed?

*Select one:*
A. Independent Agents and Brokers (producers)
B. Exclusive Agency and Direct Writer
C. Federal Marketing Programs
C. Distribution Channels

**Question 20**

What are the Factors Needed to Calculate a Policy Premium

*Select one:*

A. Insurance Rate X Exposure Units = Policy Premium
B. Insurance Rate X Premium Units = Policy Premium
C. Insurance Rate X Liability Units = Policy Premium
D. Insurance Rate X Loss Units = Policy Premium
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**Question 21**

Which one of the following statements is incorrect about Risk Control Department
 *Select one:*A. The risk control department needs claims experience information to direct resources and efforts to crucial areas of an insured’s operation
B. The claims department relies on risk control for data that can support the loss adjusting process
C. The risk control department can provide standards, technical advice, laboratory analyses, and other assistance to the claims department when investigating and settling claims
D. The risk control department give better rates on policies when they do in person inspections

**Question 22**

Larry is a personal lines underwriter.  He always tries to follow underwriting guidelines, effectively evaluate loss exposures, and charge adequate premiums.  By doing these things, Larry’s goal is to ensure

*Select one:*

A. Maintain good relationships with regulators

B. A high combined ratio

C. A low combined ratio

D. Adequate policyholders’ surplus.

**Question 23**

Brian works in the field for Tyronious Mutual as a line underwriter.  Which one of the following is the main responsibility of line underwriters?

*Select one:*

A. Select different insureds

B. Decide to use manuscript policies

C. Research the underwriting strategies

D. Choose claims representative

**Question 24**

Pete works in the Underwriting department for BDFM Insurance.  In addition to carefully selecting insureds, he works with producers and premium auditors to ensure accurate classification and pricing. Pete manages a book of business. Pete is a

*Select one:*

A. Corporate underwriter

B. Department underwriter

C. Undercover underwriter

D. Field Underwriter

**Question 25**

As an experienced underwriter, Sally is a very experienced underwriter. She has learned to do her best to avoid a mistake that can produce insufficient premium to cover losses, or pricing that isn’t competitive enough for her company.  Which one of the following underwriting mistakes can often cause these issues?

*Select one:*

A. Using too low of a premium

B. Using too low of a deductible

C. Using the incorrect policy terms and conditions

D. Classifying exposures incorrectly

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**Question 26**

Cole was reviewing an all-lines submission for JA Stores. JA Stores owns and operates 3 local pet store businesses The stores all seem to be well maintained and clean and safe for customers.  While the overall loss experience on the account is good relative to the indicated premium, the loss runs show a frequency of small general liability claims from customer snake bite related injuries.  Rather than reject the application for JA Stores, Cole would like to suggest a coverage modification to the producer that could make the application acceptable and possibly add value for the insured.  Which one of the following is a good coverage modification for Cole to suggest?

*Select one:*

A. Propose the general liability coverage at a lower premium level, but apply a small deductible.

B. Propose the general liability coverage at the maximum premium.

C. Propose the general liability coverage, excluding the 1 pet store location locations that have a history of claims.

D. Offer a proposal with all lines of coverage except the general liability coverage.

**Question 27**

In homeowners insurance, exposure units are normally expressed as $1000 of insured value. For a home insured for $500,000, the number of exposure units is

*Select one:*

A. 5,000

B. 50

C. 500,000,000

D. 500

**Question 28**

Shelton manufacturing has $4 million in annual sales, its liability insurance is priced per 2,000 of sales, and the per-unit rate is $0.50.  What is Shelton Manufacturing's liability insurance premium?

*Select one:*

A. $500

B. $1,000

C. $2,000

D. $10,000

**Question 29**

Samantha is an insurance company employee who evaluates claims based on telephone conversations and correspondence

*Select one:*

A. A claims supervisor.

B. An independent adjuster.

C. A Telephone claims representative.

D. An adjusting agent.

**Question 30**

Which of the following is not correct regarding the role of a Field Claims Representative?

*Select One:*
A. Generally work outside of the office
B. Often holds in person meetings with insured’s and claimants
C. Sometimes holds in person meetings with lawyers involved with the claim
D. Can sometimes receive commissions based on new business generated from out in the field

**Question 31**

Understanding the steps in the claims handling process is important to new claims reps. Which one of the following steps generally comes after contacting the insured?

*Select one:*

A. Investigating and documenting the claim

B. Identifying the policy

C. Acknowledging a claim

D. Determining cause of loss and loss amount

**Question 32**

Chris is a new claims representative with TZ Insurers. Which one of the following will Chris find is true as he gains more experience with his company’s claims handling process?

*Select one:*

A. Chris will find the most claims involve a litigation process

B. Chris will determine the type of loss with each claim, such as property damage or liability

C. Chris sits in the cubicle next to another claims representative, Dave, who assigns claims to Chris.

D. Chris learns that all claims, no matter the circumstances or parties involved, could involve subrogation.

**Question 33**

A process by which an insurer can recover an amount it paid as a loss from another party. Either because they caused the loss or insured the party that caused it

*Select one:*

A. Subrogation

B. Salvage Rights

C. An insurable interest.

D. Fiduciary Rights

**Question 34**

After Donny’s house burnt to the ground, and he was reimbursed for the loss by Gotchu Insurance. Later Gotchu insurance had the remaining materials from the home auctioned off to local construction companies. Gotchu’s rights to recover and sell or otherwise dispose of insured property on which it has paid a total loss are called

*Select one:*

A. Salvage rights.

B. Constructive rights.

C. Loss rights.

D. Fiduciary rights.

**Question 35**

Punitive damages represent

*Select one:*

A. Out-of-pocket expenses.

B. Are awarded to punish defendant for reckless, malicious or deceitful acts.

C. Actual harm suffered.

D. Damages to for pain and suffering.

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**Question 36**

Compensatory Damages

*Select one:*

A. Reimburse a victim for actual harm.

B. Reimburse a victim for financial damages.

C. Reimburse a 3rd party victim for all damages.

D. Reimburse another insurer for financial damages.

**Question 37**

The following are responsibilities of producers except
*Select One:*
A. Respond to billing questions
B. Collect premiums from customer
C. Answer coverage questions
D. Regulate compliance of the claims representatives

**Question 38**

Which one of the following lists provides the optimum order of responsibilities that a producer may engage with any customer on a continual basis?

To add value to the relationship, producers will often

*Select one:*

A. Stick with only 1 risk management techniques

B. Ignore loss exposures that weren’t previously present

C. Allow the customer service rep to be the point of contact

D. Preparing a coverage proposal to prospective customers

**Question 39**

What is the first step of the risk consultation process?

*Select one:*

A. Establish standards of acceptable performance

B. Compare actual results with these standards

C. Correct substandard performance or revise standards

D. Evaluate substantially exceeded standards

**Question 40**
Jackie is a new customer service rep who was just hired by WCUUSLI Insurance. Which of the following is an expected requirement for her in her new role?

*Select one:*

A. Jackie will need to coordinate meetings between claims and legal representatives

B. Jackie will need to give specific advice risk management strategies

C. Jackie will earn commissions for bringing in new business but it will take her time to build a book of business

D. Jackie will help customers identify their coverage needs

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**Question 41**

The Cost of Risk can be described as

*Select one:*

A. Cost of Risk and Total Cost of Risk (TCOR) are always different

B. The total cost of acquiring new business

C. The total cost of all potential losses in a given policy period

D. The total cost of all aspects of the organization that relate to managing risk.

**Question 42**

Tyrone is a tenured sales producer at Foley Insurance. Tyrone always lays out transparent risk management goals aimed at being beneficial for all parties involved. As part of this effort, which one of the following will Tyrone agree with when it comes to Risk management goals?

*Select one:*

A. Risk management goals should be attainable to the organization, but they should also pose a challenge.

B. Results-based standards are always more important than activity standards to the overall success of an organization.

C. Sometimes it’s better to establish new standards of acceptable performance rather than rely on previous standards.

D. Risk management goals are often more achievable when there is a financial end goal.

**Question 43**

Claims supervisor Cathy is reviewing the incoming claims for the week to decide which ones to assign to various claims reps. Of those claims, which one of the following descriptions will Cathy find is an example of a fortuitous loss?

*Select one:*

A. Insureds intentionally burned down their house

B. The value of an insured’s home decreases due to overgrowth and neglect.

C. Lightening strikes causing the insureds house to burn down

D. Insureds intentionally set a fire and burn their house down.

**Question 44**

Insurance deals primarily with Pure Risk and never Speculative Risk. Which one of the following statements best characterizes Pure Risk?

*Select one:*

A. Entails opportunity of Loss, No Loss or Gain

B. Entails the opportunity of Loss or No Loss.

C. Entails the opportunity of Loss or Gain.

D. Entails the opportunity of No Loss or Gain.

**Question 45**

The purpose of insurance is to restore a party who has had a loss to the same financial position that the party held before the loss occurred. This is known as…

*Select one:*

A. Maintaining a nontransferable contract

B. Restoring unequal amounts

C. Maintaining a contract of utmost good faith

D. Indemnifying the party for it’s loss

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**Question 46**
Because the insurer determines the exact wording of the policy. The insured has little choice but to take it or leave it. The insured must adhere to the contract drafted by the insurer. This is known as

*Select one:*

A. A contract of indemnity.

B. A contract of adhesion.

C. A contract of utmost good faith.

D. A conditional contract.

**Question 47**

Which one of the following types policy provisions typically comes first in an insurance policy?

*Select one:*

A. Declarations

B. Insuring Agreement

C. Definitions

D. Policy Conditions

**Question 48**

New homeowner and small business owner Bruce learns that an insurance policy may contain other documents than its insurance forms. Accordingly, which one of the following will Bruce find is true regarding his new insurance purchases?

*Select one:*

A. Bruce’s application likely has endorsements, which modify the basic policy form.

B. Bruce’s policy can be a manuscript policy or modular policy.

C. As Bruce’s policy coverages are relatively common, she will simply require a Manuscript.

D. Bruce’s policy may contain conditions which further qualifies promise to make payment

**Question 49**

Which one of the following form the core of every insurance policy?

*Select one:*

A. Declarations and Insuring Agreement

B. Declarations, Definitions, and Insuring Agreement

C. Insuring Agreement, Policy Conditions and Policy Exclusions

D. Definitions, Policy Conditions and Policy Exclusions

**Question 50**

The Conditions and Exclusions are an import part of an insurance policy because

*Select one:*

A. it eliminates coverage for uninsurable loss exposures

B. It states the insurers promises to the insured

C. it defines the policy terms

D. it indicates profitability of loss coverages

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