# Introduction to Insurance Contracts and Risk Management

Insurance And Risk Management · Answer Key · 15 Questions

### 1. What is the primary purpose of insurance?

A) To generate profit for the insured
B) To eliminate all life risks
**C) To transfer risk from the insured to the insurer**
D) To prevent all accidents from occurring

### 2. What is another common name for an insurance contract?

**A) Insurance policy**
B) Insurance premium
C) Insurance peril
D) Insurance indemnity

### 3. What does the term 'premium' refer to in insurance?

A) The profit made by the insured
**B) The payment made to transfer risk**
C) The cost of repairing a property
D) The type of risk being covered

### 4. What is a peril?

A) A type of insurance policy
B) The financial gain from a loss
**C) An event that could cause a loss**
D) The person protected by a policy

### 5. Which type of risk involves the possibility of both financial loss and financial gain?

A) Pure risk
**B) Speculative risk**
C) Liability risk
D) Personal risk

### 6. Only which category of risk is considered insurable?

A) Speculative risk
**B) Pure risk**
C) Intentional risk
D) Voluntary risk

**7. What is the goal of insurance indemnity?**

A) To make the insured wealthy
**B) To put the insured back in the financial position they were in before the loss**
C) To pay the insured more than the loss value
D) To prevent future accidents from happening

**8. What is a 'declarations page' in an insurance policy?**

A) A summary of the insurer's profits
B) A document detailing the terms and conditions of the contract
**C) The first page of the policy identifying key contract details**
D) A list of all possible risks in the world

**9. What is an insurable interest?**

**A) A financial stake in the property being insured**
B) A curiosity about how insurance works
C) The desire to buy more insurance
D) The legal right to sue an insurer

**10. What is the difference between direct and indirect loss?**

A) Direct loss is accidental; indirect is intentional
**B) Direct loss is damage to the object; indirect is the consequence of that damage**
C) Direct loss is covered; indirect is never covered
D) Direct loss happens to the insurer; indirect to the insured

**11. Which of the following is NOT one of the four types of pure risk?**

A) Property risk
B) Liability risk
C) Earnings risk
**D) Gambling risk**

**12. What is an example of controlling risk?**

A) Not driving a car
**B) Installing an alarm system**
C) Accepting a high deductible
D) Buying a life insurance policy

**13. What does it mean to 'retain' risk?**

A) Transferring the risk to a bank
**B) Assuming financial responsibility for all or part of a loss**
C) Avoiding all risky activities
D) Asking the government to pay for losses

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**14. What is the most effective way to eliminate risk entirely?**

A) Transferring it
**B) Avoiding the activity that causes the risk**
C) Retaining it
D) Controlling it

**15. Why is avoiding risk often considered impractical?**

A) Because it is too expensive
B) Because it eliminates all chances of gain
**C) Because it often prevents one from participating in activities**
D) Because insurance companies forbid it

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