Introduction to Insurance Contracts and Risk Management

Insurance And Risk Management · Practice Test · 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

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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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