Understanding Insurance Contracts

Insurance Law · Answer Key · 15 Questions

1. What is the primary definition of a contract?

A) A formal document only
B) An agreement between parties creating obligations
C) A promise to pay money
D) A legal requirement for all businesses

2. How many essential elements must be present for an insurance contract to be legally enforceable?

A) Five
B) Eight
C) Three
D) Ten

3. Which of these is an element unique to insurance contracts?

A) Genuine Intention
B) Legality of Object
C) Utmost Good Faith
D) Legal Capacity

4. What happens if any of the eight essential elements are not satisfied in an insurance contract?

A) It becomes void or voidable
B) It is automatically amended
C) The broker is fined
D) The insurer must pay the claim

5. What is considered 'consideration' in an insurance contract?

A) The signing of the application
B) The broker's advice
C) The exchange of premium for the insurer's promise to indemnify
D) The delivery of the policy

6. What is the principle of 'indemnity'?

A) To profit from a loss
B) To put the insured back in the financial position held before the loss
C) To pay the maximum limit regardless of the loss
D) To provide a new replacement item

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7. What does 'utmost good faith' require from the parties to an insurance contract?

A) A higher standard of honesty than in other contracts
B) The sharing of all profits
C) The ability to negotiate terms at any time
D) A written contract for every communication

8. What is an 'insurable interest'?

A) The desire to own property
B) The ability to show financial loss if the item is damaged
C) The requirement to pay a premium
D) The right to choose an insurer

9. Who is considered a 'bailee' in the context of insurance?

A) The insurance broker
B) A party entrusted with the safekeeping or servicing of property
C) The primary owner of the property
D) The mortgage lender

10. What is the purpose of a 'void' contract?

A) It is a contract that can be cancelled at will
B) It is a contract that never legally existed
C) It is a contract that is only enforceable by the insurer
D) It is a contract that has expired

11. What is the main function of the 'declarations' page in an insurance policy?

A) To list exclusions
B) To summarize key policy information on a single page
C) To provide definitions of terms
D) To explain the legal rights of the broker

12. What does 'subrogation' mean?

A) The insurer's right to recover loss costs from a responsible third party
B) The insured's right to change the policy
C) The broker's right to collect premiums
D) The process of cancelling a policy

13. Can an insurance broker change a term or condition of a contract by waiving it?

A) Yes, if they are the broker
B) No, waivers must be in writing and signed by an authorized person at the insurance company
C) Yes, if the insured agrees verbally
D) Only for commercial policies

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14. What is an 'insurance binder'?

A) A permanent contract
B) A document summarizing claims history
C) Temporary evidence of insurance coverage
D) A list of all excluded perils

15. What is a 'coinsurance' clause designed to do?

A) Increase the premium
B) Ensure the insured carries an adequate amount of insurance relative to the value
C) Eliminate the need for a deductible
D) Provide coverage for illegal acts

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