

MODULE 2
RISK MANAGEMENT & INSURANCE PLANNING

SAMPLE QUESTIONS

1. A type of risk with high frequency but low severity is probably best handled by:
 - a) Self-insurance
 - b) Insurance
 - c) Avoidance
 - d) Transfer

2. 'Consideration' under the law is a return promise to:
 - (1) Do certain things
 - (2) Abstain from doing certain things
 - (3) Forbear some acts
 - (4) Accept an offer
 - a) (1), (2), and (3) only
 - b) (1), (2), and (4) only
 - c) (1), (3), and (4) only
 - d) (2), (3), and (4) only

3. Frank has an indemnity policy in respect of his house. The house was valued when he first took out the policy three years ago at \$80,000 and insured for that amount. The policy has been renewed each year since, without alteration. If the house is destroyed by fire and the cost of rebuilding it would be \$110,000, how much is Frank likely to recover?
 - a) \$58,182
 - b) \$80,000
 - c) \$88,000
 - d) \$110,000

4. A client explains that she only wants a life insurance policy that will cover her family against financial risk over the next five years, while she still has dependent children and a large mortgage. It is unlikely her income will increase over this period. What type of insurance is she looking for?
 - a) Pure endowment assurance
 - b) Term insurance with a level premium
 - c) Single premium life insurance
 - d) Whole of life assurance to be made paid up after five years

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5. The 'principle of subrogation' means:
- a) An insurer may bring an action against a third party in the name of the insured after satisfying a claim
 - b) An insured may not take legal action in respect of a matter which is the subject of a claim
 - c) An insurer undertakes to take legal action on behalf of its insured and to pay to the insured the net proceeds of such legal action
 - d) An insurer which has satisfied a claim may recover from the insurer of a third party who admits liability
6. During retirement, a person would maintain a high level of life insurance protection to:
- (1) Pay estate duty
 - (2) Provide succession or dependent income
 - (3) Repay outstanding debt
 - (4) Build cash value
- a) (1) and (2)
 - b) (1) and (3)
 - c) (1), (2) and (3)
 - d) None of the above
7. Which of the following is true regarding the ownership of life insurance?
- a) A policy can only be issued to the insured
 - b) Generally, assigning a policy requires proof that the insured is still 'insurable'
 - c) Only a person with an insurable interest can be named as a beneficiary
 - d) The owner can assign the policy to whomever he or she chooses, even if the assignee has no insurable interest
8. Steven has a premium due on a motor insurance policy. He calls the agent and requests for an extension. The agent assures him that the insurer usually gives a grace period of one week for such payment. Steven has an accident. The insurer cannot deny liability for the loss on the grounds that the premium was not paid because of the doctrine of:
- a) Waiver
 - b) Estoppel
 - c) Agency
 - d) Utmost good faith

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9. A reversionary bonus is:
- a) Any profit distributed to holders of life policies who cash in those policies
 - b) Generally profit that will be distributed on the same terms as the sum assured
 - c) A distribution of income to shareholders
 - d) Profit distributed to holders of unit-linked policies
10. Professional indemnity insurance protects a financial advisor who has been negligent in giving investment advice:
- a) Only if the advisor is liable under statute
 - b) Only if a contract exists between the advisor and the investor
 - c) Only if the investor relies on the advice
 - d) Only if the advisor has not included a disclaimer of liability in the contract with the investor

Answers:

1(a) 2(a) 3(b) 4(b) 5(a) 6(b) 7(d) 8(b) 9(b) 10(c)

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