

# INS 21

## Appendix B

### Property and Liability Insurance Principles

#### **COURSE LEADER HANDBOOK**

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# Appendix B

## Quizzes

### Introduction

One quiz per assignment is provided in this section. A sample answer key is also provided. Please note that because the quiz is in the essay format, the answer key might not address all possible answers. If you want a longer quiz, you might want to supplement with questions from the course guide or SMART exam disk. For tips on creating quiz questions, see page 11 of the general Course Leader Handbook.

# Assignment 1—Quiz

1. Based on the example or definition, fill in the appropriate Key Word or Phrase.  
(10 points)
  - a. A customer whose finger was caught in a revolving door incurred medical expenses for hospital treatment. \_\_\_\_\_
  - b. Insurance that provides lifetime protection accrues cash value and has premiums that remain unchanged during the insured's lifetime. \_\_\_\_\_
  - c. An insurer insures thousands of homes whose owners face uncertainty of loss. Because of the large numbers of homes, the insurer can, with a great deal of accuracy, predict the number of homes that will be damaged by a particular loss.  
\_\_\_\_\_
  - d. The cars or houses of all of an insurer's insureds. \_\_\_\_\_
  - e. Rowdy Rafters suffers a fire loss and has to close for thirty days while they relocate. They lose income and have increased expenses due to advertising their new location. Because they had purchased this coverage, their losses were covered under their insurance policy. \_\_\_\_\_  
\_\_\_\_\_
  - f. ABC Insurance purchases television advertising time on Monday evenings during prime time to target a specific audience. \_\_\_\_\_
  - g. Revenue minus expenses and taxes during a given time period. \_\_\_\_\_
  - h. Purchase price of coverage, salaries, commissions, opportunities lost, fraud, and increased litigation. \_\_\_\_\_
  - i. Covers perils of the sea. Protects ships and their cargo. \_\_\_\_\_
  - j. Accepting, rejecting, or modifying requests for insurance coverage. \_\_\_\_\_

2. Provide one example of each ideally insurable loss exposure.  
(6 points. One point for each correct example.)
- a. Loss exposure involves pure, not speculative risk.
  
  - b. Loss exposure is subject to accidental losses from the insurer's standpoint.
  
  - c. Loss exposure is subject to losses that are definite in time and that are measurable.
  
  - d. Loss exposure is one of a large number of similar but independent exposures.
  
  - e. Loss exposure is not subject to a loss that would simultaneously affect many other similar loss exposures. Loss is not catastrophic.
  
  - f. Loss exposure is economically feasible to insure.

3. Excellent Insurers, Inc. (EII) is a property-casualty insurer that is looking to expand its operations to include some small businesses and commercial auto risks. EII knows that it must take great care in arranging the insurance it agrees to provide, not only to enable it to meet its commitment to its insureds (to pay for covered losses) but also to collect enough premiums to realize a reasonable profit. EII must decide which potential customers to insure and what coverages to offer and determine the appropriate price. On a daily basis, EII must also determine which losses sustained by its customers are covered and how much will be paid.

To accomplish these goals, insurers engage in various insurance operations. For each insurance operation, provide a brief definition and an example.

(8 points. One point for each correct insurance operation, and 1 point for each correct example.)

a. Underwriting

b. Ratemaking

c. Claim handling

d. Marketing

# Assignment 1—Quiz Answers

1. Based on the example or definition, fill in the appropriate Key Word or Phrase.  
(10 points)
  - a. A customer whose finger was caught in a revolving door incurred medical expenses for hospital treatment.  
**Answer:** Premises liability coverage
  - b. Insurance that provides lifetime protection, accrues cash value and has premiums that remain unchanged during the insured's lifetime.  
**Answer:** Whole life insurance
  - c. An insurer insures thousands of homes whose owners face uncertainty of loss. Because of the large numbers of homes, the insurer can, with a great deal of accuracy, predict the number of homes that will be damaged by a particular loss.  
**Answer:** Law of large numbers
  - d. The cars or houses of all of an insurer's insureds.  
**Answer:** Exposure unit
  - e. Rowdy Rafters suffers a fire loss and has to close for thirty days while they relocate. They lose income and have increased expenses due to advertising their new location. Because they had purchased this coverage, their losses were covered under their insurance policy.  
**Answer:** Business income insurance
  - f. ABC Insurance purchases television advertising time on Monday evenings during prime time to target a specific audience.  
**Answer:** Marketing
  - g. Revenue minus expenses and taxes during a given time period.  
**Answer:** Net income
  - h. Purchase price of coverage, salaries, commissions, opportunities lost, fraud, and increased litigation.  
**Answer:** Costs of insurance
  - i. Covers perils of the sea. Protects ships and their cargo.  
**Answer:** Ocean marine coverage
  - j. Accepting, rejecting, or modifying requests for insurance coverage.  
**Answer:** Underwriting

2. Provide one example of each ideally insurable loss exposure. Examples will vary.

a. Loss exposure involves pure, not speculative risk.

**Answer:** There should be no chance of gain in an ideally insurable loss exposure because that would be a speculative risk. A house fire would be a pure risk because there is only a chance of loss (damage to the house from a fire).

b. Loss exposure is subject to accidental losses from the insurer's standpoint.

**Answer:** The insured has no control over causing the loss. An example is damage to a building caused by windstorm.

c. Loss exposure is subject to losses that are definite in time and that are measurable.

**Answer:** In order to settle a claim, an insurer must know when the loss took place to determine its eligibility for coverage. In order to determine the amount of the settlement to be paid, the insurer must be able to establish a dollar amount that will indemnify the insured to restore them to a pre-loss condition.

d. Loss exposure is one of a large number of similar but independent exposures.

**Answer:** The more types of similar exposures that an insurance company insures, the easier it becomes to predict loss activity. An example is cars in Houston, Tex.

e. Loss exposure is not subject to a loss that would simultaneously affect many other similar loss exposures; loss would not be catastrophic.

**Answer:** Insurers are not looking to insure losses that are catastrophic, such as flood, earthquake, and war. There are special markets that will insure some of these risks.

f. Loss exposure is economically feasible to insure.

**Answer:** The applicant selects a \$100 deductible. However, the cost to settle any claims under \$1,000 may not be cost effective for the insurer. The insurer will ask the applicant to increase the deductible to \$1,000 or more.

3. Excellent Insurers, Inc. (EII) is a property-casualty insurer that is looking to expand its operations to include some small businesses and commercial auto risks. EII knows that it must take great care in arranging the insurance it agrees to provide, not only to enable it to meet its commitment to its insureds (to pay for covered losses) but also to collect enough premiums to realize a reasonable profit. EII must decide which potential customers to insure and what coverages to offer and determine the appropriate price. On a daily basis, EII must also determine which losses sustained by its customers are covered and how much will be paid.

To accomplish these goals, insurers engage in various insurance operations. For each insurance operation, provide a brief definition and an example.

(8 points. One point for each correct definition, and 1 point for each correct example. Examples will vary.)

a. Underwriting

**Answer:** This is the process by which insurers decide which potential customers to insure and what coverages to offer. Underwriters are responsible for selecting applicants, pricing coverage, and determining policy terms and conditions. Underwriters can accept, reject, or modify requests for insurance coverage.

An underwriter receives an application for a homeowners policy and sees that the applicant has requested a \$100 deductible and that the applicant submitted two \$75 claims to his previous insurer. To make this risk more feasible to insure, the underwriter advises the applicant that they will only issue the policy if the applicant chooses a higher deductible.

An underwriter may receive a request to write a commercial property policy for a drycleaner that has no alarm or fire protection system. The underwriter can request that the insured install a central station alarm before they provide insurance.

b. Ratemaking

**Answer:** The process by which insurers determine the rates (premium) for each category or classification of similar but independent insureds. Premiums need to be appropriate to pay losses, pay operating expenses, and earn a reasonable profit. (These are three of the costs of insurance.)

After reviewing its entire book of business, EII determines that it needs to charge \$0.50 more per \$100 of "all-risks" jewelry coverage to settle all of their claims, cover their operating expenses, and make a reasonable profit.

c. Claim handling

**Answer:** Enables insurance companies to determine whether a covered loss has occurred and, if so, the amount to be paid for the loss. The role of a claim representative is to satisfy the insurer's obligation under an insurance policy by promptly responding to claims and gathering the information necessary to evaluate a claim thoroughly and reach a fair settlement.

EII immediately sends a company adjuster to evaluate the damage caused to an insured's home by a recent hail storm. Using information gathered about the home during initial underwriting and utilizing information about current local construction costs, the adjuster is able to arrive at an accurate settlement figure. This settlement will restore the insured to their financial position before the loss occurred in accordance with the policy terms and conditions.

d. Marketing

**Answer:** The process of identifying customers and selling and delivering a product or service.

An insurance company decides that it wants to sell a new homeowners product to a specific group. Through statistical data it is able to prove that retired couples age sixty-two to seventy-five are a good target audience for the new product. The insurance company decides to purchase print advertisements in Modern Maturity Magazine to try to sell their new product.



3. Match the correct term with the correct definition.  
(10 points. One point for each item matched correctly.)

- |   |  |
|---|--|
| ___ 1. National Association of Insurance Commissioners (NAIC) | A. A ratemaking concept that considers rates to be unfairly discriminatory if they penalize an insured for characteristics that are beyond the insured's control.  |
| ___ 2. Ratemaking   | B. A person who uses complex mathematical methods and technology to analyze loss data and to develop systems for determining insurance rates.  |
| ___ 3. A Model Law  | C. A document drafted by the NAIC in a style similar to a state statute, which reflects the NAIC's proposed solution to a given problem and provides a common basis to the states for drafting laws that affect the insurance industry.                            |
| ___ 4. Rate   | D. The process insurers use to calculate the rates that determine the premium for insurance coverage.  |
| ___ 5. Premium  | E. An unincorporated association formed to provide insurance coverage to its members.  |
| ___ 6. Reciprocal Insurance Exchange                          | F. A ratemaking concept through which actuaries base rates on actuarially calculated loss experience and place insureds with similar characteristics in the same rating class.   |
| ___ 7. Actuary  | G. An association consisting of the commissioners of the insurance departments of each state, The District of Columbia, and U.S. Territories and possessions. The association coordinates insurance regulation activities among the various insurance departments. |
| ___ 8. Actuarial equity                                       | H. The price of insurance for each unit of exposure.   |
| ___ 9. Social equity  | I. A periodic payment by an insured to an insurance company in exchange for insurance coverage.  |
| ___ 10. Guaranty fund   | J. A state fund that provides a system to pay the claims of insolvent insurers.  |

## Assignment 2—Quiz Answers

1. For each of the following government insurance programs, state whether it is a federal or state insurance program and describe a benefit of each.

(8 points. One point for correctly identifying the type of program, and 1 point for a correct benefit.)

- a. Social Security program

**Answer:** This is federal government insurance program.

This program can provide retirement and medical benefits for the elderly, survivorship benefits for dependents of deceased workers, and disability payments to disabled workers.

- b. Unemployment insurance

**Answer:** This is a state government insurance program.

This plan provides benefits to displaced workers. Private insurance covering the loss of income due to unemployment is not available because of the catastrophic potential of widespread unemployment.

- c. FAIR Plan (Fair Access to Insurance Requirements)

**Answer:** This is a state government insurance program.

This program makes make property insurance available where it would otherwise be unavailable. These state-run plans spread the cost of operating the plan among all private insurers selling property insurance in the state. Property exposed to brush fire is an example of property that could be covered under the FAIR plan.

- d. National Flood Plan

**Answer:** This is a federal government insurance program.

This program can provide insurance coverage to those who have property in areas exposed to flooding. This is a catastrophic loss that private insurers do not cover.

2. Complete the following sentences with the best key word or phrase:

(5 points. One point for each correct answer.)

- a. Insurance rating laws that specify rates must be filed within a specified period after they are first used in the state are called

**Answer:** Use-and-file laws

- b. Insurance rating laws that require rates to be approved by the state insurance department before they can be used are called

**Answer:** Prior approval laws

- c. Insurance rating laws that do not have to be filed with the state are called

**Answer:** Open competition or no file laws (either is acceptable)

- d. Insurance rating laws that must be filed with the state insurance department but do not need to be approved before use are called

**Answer:** File-and-use laws

- e. Insurance rating laws that only require prior approval if the new rates are a specified percentage above or below the previously filed rates are called

**Answer:** Flex rating laws

3. Match the correct term with the correct definition.  
(10 points. One point for each item matched correctly.)

**Answer:**

- |  |  |
|--|--|
| <u>G</u> 1. National Association of Insurance Commissioners (NAIC) | A. A ratemaking concept that considers rates to be unfairly discriminatory if they penalize an insured for characteristics that are beyond the insured's control.  |
| <u>D</u> 2. Ratemaking   | B. A person who uses complex mathematical methods and technology to analyze loss data and to develop systems for determining insurance rates.  |
| <u>C</u> 3. A Model Law  | C. A document drafted by the NAIC in a style similar to a state statute, which reflects the NAIC's proposed solution to a given problem and provides a common basis to the states for drafting laws that affect the insurance industry.                            |
| <u>H</u> 4. Rate   | D. The process insurers use to calculate the rates that determine the premium for insurance coverage.  |
| <u>I</u> 5. Premium  | E. An unincorporated association formed to provide insurance coverage to its members.  |
| <u>E</u> 6. Reciprocal Insurance Exchange                          | F. A ratemaking concept through which actuaries base rates on actuarially calculated loss experience and place insureds with similar characteristics in the same rating class.   |
| <u>B</u> 7. Actuary  | G. An association consisting of the commissioners of the insurance departments of each state, The District of Columbia, and U.S. Territories and possessions. The association coordinates insurance regulation activities among the various insurance departments. |
| <u>F</u> 8. Actuarial equity                                       | H. The price of insurance for each unit of exposure.   |
| <u>A</u> 9. Social equity  | I. A periodic payment by an insured to an insurance company in exchange for insurance coverage.  |
| <u>J</u> 10. Guaranty fund   | J. A state fund that provides a system to pay the claims of insolvent insurers.  |

## Assignment 3—Quiz

1. Read the following information and answer the following questions. (3 points)

Bill Anderson is an underwriter. He issues an insurance policy that is effective from 12/01/2005 to 12/1/2006. The annual premium is \$1,200. The policy is canceled effective 07/01/2006.

- a. What is the total written premium for this policy?
  
  
  
  
  
  
  
  
  
  
- b. Effective 07/01/2006, what is the earned premium for this policy?

2. Complete the following statements. (10 points)

- a. Claim payments that an insurer has made are \_\_\_\_\_ .
  
  
  
  
  
  
  
  
  
  
- b. Monetary amounts designated by insurance companies to pay claims for losses that have already occurred but are not yet settled are \_\_\_\_\_ .
  
  
  
  
  
  
  
  
  
  
- c. Two types of assets are \_\_\_\_\_ and \_\_\_\_\_ .
  
  
  
  
  
  
  
  
  
  
- d. A term that means financial obligations is \_\_\_\_\_ .
  
  
  
  
  
  
  
  
  
  
- e. Admitted assets – liabilities = \_\_\_\_\_ .
  
  
  
  
  
  
  
  
  
  
- f. A financial statement that shows an insurer's financial position at a particular point in time is a \_\_\_\_\_ .
  
  
  
  
  
  
  
  
  
  
- g. Combined Ratio – Investment Income Ratio = \_\_\_\_\_ .
  
  
  
  
  
  
  
  
  
  
- h. Agents' commissions are known as \_\_\_\_\_ expenses.
  
  
  
  
  
  
  
  
  
  
- i. Salaries, accounting, and customer service expenses are an example of \_\_\_\_\_ expenses.

## Assignment 3—Quiz Answers

1. Read the following information and answer the following questions. (3 points)

Bill Anderson is an underwriter. He issues an insurance policy that is effective from 12/01/2005 to 12/1/2006. The annual premium is \$1,200. The policy is canceled effective 07/01/2006.

- a. What is the total written premium for this policy as of 04/30/06?

**Answer:** \$1,200

- b. Effective 07/01/2006 what is the earned premium for this policy?

**Answer:** \$700

2. Complete the following statements. (10 points)

- a. Claim payments that an insurer has made are

**Answer:** Paid losses

- b. Monetary amounts designated by insurance companies to pay claims for losses that have already occurred but are not yet settled are

**Answer:** Loss Reserves

- c. Two types of assets are

**Answer:**

1) Admitted assets

2) Nonadmitted assets

- d. A term that means financial obligations is

**Answer:** Liability

- e. Admitted assets – Liabilities =

**Answer:** Policyholders' surplus

- f. A financial statement that shows an insurers financial position at a particular point in time is a

**Answer:** Balance sheet

- g. Combined Ratio – Investment Income Ratio =

**Answer:** Overall operating ratio

h. Agents commissions are known as

**Answer:** Acquisition expenses

i. Salaries, accounting, and customer service expenses are an example of

**Answer:** General expenses

## Assignment 4—Quiz

1. Fill in the blank. (5 points)

- a. Creating, pricing, promoting, selling, and distributing products or services that meet the needs of customers are examples of \_\_\_\_\_ .
- b. An agent may also be known as a(n) \_\_\_\_\_ .
- c. A written agreement between an insurance company and an insurance agent that specifies, among other things, the scope of the agent's authority to conduct business for the insurer is known as a(n) \_\_\_\_\_ .
- d. Loyalty, obedience, reasonable care, accounting, and relaying information are all \_\_\_\_\_ .
- e. Negligent acts committed by a person in the conduct of the insurance business that give rise to legal liability for damages are known as \_\_\_\_\_ .

2. Indicate the type of authority that each of the following examples is providing. (3 points)

- a. Authority is granted in the agency contract.
- b. Although it is not expressly written in its agency contract, an insurance agency collects and remits insurance premiums to the insurance company.
- c. An agency, whose agency agreement with Worldwide Insurance has been terminated, continues to display the Worldwide logo in their agency advertisements and supplies its clients with Worldwide insurance applications for homeowners insurance. The agency accepts a Worldwide application and sends in the premium money. The insured has a loss and the claim is covered by Worldwide.

3. Match the unfair trade practice to the correct example. (3 points)

\_\_\_ 1. Misrepresentation/False Advertising

A. Insurance Agent Bob offers to split his commission with Mrs. Able if she agrees to let him write her homeowners, automobile, and umbrella policies.

\_\_\_ 2. Tie-in Sales

B. ABC Bank advises Mrs. Able that the only way they will approve her request for a mortgage is if she buys homeowners insurance directly from ABC.

\_\_\_ 3. Rebating

C. Ultra Insurance offers an all-risk policy to its customers. The policy has several exclusions.

## Assignment 4—Quiz Answers

1. Fill in the blank. (5 points)

- a. Creating, pricing, promoting, selling, and distributing products or services that meet the needs of customers are examples of

**Answer:** Marketing

- b. An agent may also be known as a(n):

**Answer:** Producer

- c. A written agreement between an insurance company and an insurance agent that specifies, among other things, the scope of the agent's authority to conduct business for the insurer is known as a(n)

**Answer:** Agency contract or agency agreement

- d. Loyalty, obedience, reasonable care, accounting, and relaying information are all

**Answer:** Responsibilities of the agent to the principal

- e. Negligent acts committed by a person in the conduct of insurance business that give rise to legal liability for damages are known as

**Answer:** Errors and omissions

2. Indicate the type of authority that each of the following examples is providing. (3 points)

- a. Authority is granted in the agency contract.

**Answer:** Express authority

- b. Although it is not expressly written in its agency contract, an insurance agency collects and remits insurance premiums to the insurance company.

**Answer:** Implied authority

- c. An agency, whose agency agreement with Worldwide Insurance has been terminated, continues to display the Worldwide logo in their agency advertisements and supplies its clients with Worldwide insurance applications for homeowners insurance. The agency accepts a Worldwide application and sends in the premium money. The insured has a loss and the claim is covered by Worldwide.

**Answer:** Apparent authority

3. Match the unfair trade practice to the correct example. (3 points)

C 1. Misrepresentation/False Advertising

A. Insurance Agent Bob offers to split his commission with Mrs. Able if she agrees to let him write her homeowners, automobile, and umbrella policies.

B 2. Tie-in Sales

B. ABC Bank advises Mrs. Able that the only way they will approve her request for a mortgage is if she buys homeowners insurance directly from ABC.

A 3. Rebating

C. Ultra Insurance offers an all-risk policy to its customers. The policy has several exclusions.

## Assignment 5—Quiz

1. Each of the following is an example of a specific hazard. Identify the type of hazard in each example. (4 points)
  - a. A small retail shop is located in a block of row house type buildings. Most of the buildings were built in the 1940s. The retail shop has been remodeled and has a central station alarm. There are no fire walls between buildings. There is a restaurant located directly next to the retail shop that has no fire protection.
  - b. Mary decides that it is all right to store her newspapers in a wooden box next to her woodstove so they are readily available when she wants to burn them. She figures that if anything happens, she has insurance that will cover the loss.
  - c. Recently, courts have found many property liability insurers liable when their insureds are found liable for pollution losses. Due to these legal findings, insurers begin to add pollution exclusions to all of their policies.
  - d. Ted has fallen on hard times. He contemplates setting fire to his kitchen to try to collect on the insurance so he can pay his mortgage.
  
2. Provide two examples of fair discrimination and two examples of unfair discrimination. (4 points)

## Assignment 5—Quiz Answers

1. Each of the following is an example of a specific hazard. Identify the type of hazard in each example. (4 points)

- a. A small retail shop is located in a block of row house type buildings. Most of the buildings were built in the 1940s. The retail shop has been remodeled and has a central station alarm. There are no fire walls between buildings. There is a restaurant located directly next to the retail shop that has no fire protection.

**Answer:** Physical hazard

- b. Mary decides that it is all right to store her newspapers in a wooden box next to her woodstove so they are readily available when she wants to burn them. She figures that if anything happens she has insurance that will cover the loss.

**Answer:** Attitudinal (morale) hazard

- c. Recently, courts have found many property liability insurers liable when their insureds are found liable for pollution losses. Due to these findings, insurers begin to add pollution exclusions to all of their policies.

**Answer:** Legal hazard

- d. Ted has fallen on hard times. He contemplates setting fire to his kitchen to try to collect on the insurance so he can pay his mortgage.

**Answer:** Moral hazard

2. Provide two examples of fair discrimination and two examples of unfair discrimination. (4 points)

**Answer:**

Fair discrimination

- Auto insurance rating
- Selecting applicants to attend college

Unfair discrimination

- Refusing to issue an insurance policy based on geographic area location (redlining)
- Nonrenewing an insurance policy based on insured's gender or race

## Assignment 6—Quiz

1. What type of claims adjuster might be needed in each of the following situations? (4 points)
  - a. A stone hit Oscar's windshield while he was on his way to work. By the time he got to the parking lot, there was a large crack across half of the windshield. Oscar called his insurance company and reported the claim at 8:00 AM. By noon the glass company had repaired Oscar's windshield right in the parking lot. He did not have to pay for the loss because he had full glass coverage on his automobile policy.
  - b. A severe hail storm damaged many homes on the east side of Kelly's town. She called Pinnacle Insurance Company to report damage to her home and garage. Pinnacle sent a claim representative to Kelly's home to examine the damage and to determine the next course of action.
  - c. Pinnacle Insurance Company mainly insures homes in the Northeast. However, it does have a few homeowners' policies in other states, such as Florida and Georgia.

Bruce suffers a fire loss at his home in Florida. Since Pinnacle has no adjusters who are near Florida at the time of the loss, they hire an adjuster from an outside firm who is in Florida and can settle the claim for Pinnacle.

- d. Kelly does not agree with the adjuster Pinnacle sent to review her damage. She feels that she deserves at least \$10,000 more than the Pinnacle adjuster says she will get. She decides to hire an adjuster to represent her in the settling of this claim.

2. Match the definition to the key word or phrase. (5 points)

- |                                  |  |
|----------------------------------|--|
| ___ 1. Draft authority           | A. Replacement cost minus depreciation   |
| ___ 2. Self-insurance plan       | B. Business firms that contract to provide administrative services, including claim handling, to other businesses  |
| ___ 3. Third-party administrator | C. Expressly given to an agent by an insurer to settle and pay certain types of claims   |
| ___ 4. Insurable interest        | D. When a person or other entity has any right to or interest in the property, such that a loss to that property would cause a direct monetary loss to that person or entity |
| ___ 5. Actual cash value         | E. An arrangement in which an organization pays for its losses with its own resources rather than purchasing insurance   |

3. Each of the following is a description of part of the claims handling process. Name the step that applies to each scenario. (3 points)

- a. Nancy Michaels is an outside claims adjuster for Pinnacle Insurance. She is notified that one of Pinnacle's insureds has suffered a wind damage loss. Nancy makes an appointment with the insured to examine the damage at the insured's premises. Before leaving her office, Nancy verifies that the insured has an active homeowner's policy with Pinnacle. When Nancy meets the insured they discuss what happened and Nancy examines the scene. Nancy determines that during a large windstorm a branch from a tree in the insured's yard landed on the insured's roof, creating a hole. The hole allowed rain water into the home, causing severe water damage to the insured's second floor. The insured purchased a tarp and covered the hole. The insured is able to provide Nancy with receipts showing that the roof was replaced five years earlier. Nancy makes an inventory of the damaged property.

This step in the claims settlement process is \_\_\_\_\_ .

- b. Nancy returns to her office and, after reviewing the insured's contract, determines that the loss is covered. She also determines that the insured is covered for replacement cost on the dwelling and on its contents. Nancy determines that the insured was carrying the appropriate amount of coverage on the dwelling. The insured has already received a quote for the cost to repair the roof.

This step in the claims settlement process is \_\_\_\_\_ .

- c. Nancy determines the dollar amount of the loss settlement that Pinnacle will pay the insured for the claim. She calls the insured who is happy that the roof claim will be paid in full but feels that the payment for personal property is a bit low. The insured has located receipts for recently purchased electronic equipment and will send them to Nancy. Once Nancy has the receipts she agrees to increase the personal property payment.

This step in the claims settlement process is \_\_\_\_\_ .

- 4. When an insurance company sells a policy, it promises to pay claims covered by that policy. The purpose of the claim handling process is to fulfill that promise. A claim representative, the person responsible for handling claims, has several responsibilities. Name and describe two of those responsibilities. (2 points)
  
- 5. The following are examples of specific types of damage or damages that can result from a claim. Name the type of damage that each example represents. (5 points)
  - a. Homer's car is damaged in a hail storm. The insurance company adjusts the claim and issues Homer a check for \$5,000.
  
  - b. A court assesses a \$1,000,000 penalty against a defendant stating that the defendant was grossly negligent.
  
  - c. Juanita is awarded a total of \$500,000 for pain and suffering and the cost of her physician bills after and she is injured by an at-fault driver.
  
  - d. Herbert is awarded \$800,000 for pain and suffering after he is injured in a friend's pool.
  
  - e. Ronald is awarded \$525.71 to cover the medical bill he sustained after falling on his neighbor's cracked front sidewalk.

## Assignment 6—Quiz Answers

1. What type of claims adjuster might be needed in each of the following situations? (4 points)

- a. A stone hit Oscar's windshield while he was on his way to work one morning. By the time he got to the parking lot there was a large crack across half of the windshield. Oscar called his insurance company and reported the claim at 8:00 AM. By noon the glass company had repaired Oscar's windshield right in the parking lot. He did not have to pay for the loss because he had full glass coverage on his automobile policy.

**Answer:** Inside claim representative

- b. A severe hail storm damaged many homes on the east side of Kelly's town. She called Pinnacle Insurance Co to report damage to her home and garage. Pinnacle sent a claim representative to Kelly's home to examine the damage and to determine the next course of action.

**Answer:** Outside claim representative

- c. Pinnacle Insurance Company mainly insures homes in the Northeast. However, it does have a few homeowners' policies in other states, such as Florida and Georgia.

Bruce suffers a fire loss at his home in Florida. Since Pinnacle has no adjusters who are near Florida at the time of the loss, they hire an adjuster from an outside firm who is in Florida and can settle the claim for Pinnacle.

**Answer:** Independent adjuster

- d. Kelly does not agree with the adjuster Pinnacle sent to review her damage. She feels that she deserves at least \$10,000 more than the Pinnacle adjuster says she will get. She decides to hire an adjuster to represent her in the settling of this claim.

**Answer:** Public adjuster

2. Match the definition to the key word or phrase.

**Answer:**

- |                                       |  |
|---------------------------------------|--|
| <u>C</u> 1. Draft authority           | A. Replacement cost minus depreciation   |
| <u>E</u> 2. Self-insurance plan       | B. Business firms that contract to provide administrative services, including claim handling, to other businesses  |
| <u>B</u> 3. Third-party administrator | C. Expressly given to an agent by an insurer to settle and pay certain types of claims   |
| <u>D</u> 4. Insurable interest        | D. When a person or other entity has any right to or interest in the property, such that a loss to that property would cause a direct monetary loss to that person or entity |
| <u>A</u> 5. Actual cash value         | E. An arrangement in which an organization pays for its losses with its own resources rather than purchasing insurance   |

3. Each of the following is a description of part of the claims handling process. Name the step that applies to each scenario. (3 points)
- a. Nancy Michaels is an outside claims adjuster for Pinnacle Insurance. She is notified that one of Pinnacle's insured has suffered a wind damage loss. Nancy makes an appointment with the insured to examine the damage at the insured's premises. Before leaving her office, Nancy verifies that the insured has an active homeowner's policy with Pinnacle. When Nancy meets the insured they discuss what happened and Nancy examines the scene. Nancy determines that during a large windstorm a branch from a tree in the insured's yard landed on the insured's roof, creating a hole. The hole allowed rain water into the home, causing severe water damage to the insured's second floor. The insured purchased a tarp and covered the hole. The insured is able to provide Nancy with receipts showing that the roof was replaced five years earlier. Nancy makes an inventory of the damaged property.

**Answer:** This step in the claims settlement process is investigation.

- b. Nancy returns to her office and, after reviewing the insured's contract, determines that the loss is covered. She also determines that the insured is covered for replacement cost on the dwelling and on its contents. Nancy determines that the insured was carrying the appropriate amount of coverage on the dwelling. The insured has already received a quote for the cost to repair the roof.

**Answer:** This step in the claims settlement process is valuation.

- c. Nancy determines the dollar amount of the loss settlement that Pinnacle will pay the insured for the claim. She calls the insured, who is happy that the roof claim will be paid in full but feels that the payment for personal property is a bit low. The insured has located receipts for recently purchased electronic equipment and will send them to Nancy. Once Nancy has the receipts, she agrees to increase the personal property payment.

**Answer:** This step in the claims settlement process is negotiation and settlement.

4. When an insurance company sells a policy, it promises to pay claims covered by that policy. The purpose of the claim handling process is to fulfill that promise. A claim representative, the person responsible for handling claims, has several responsibilities. Name and describe two of those responsibilities. (2 points)

**Answer:** (Any two are acceptable. Descriptions will vary.)

- **To respond promptly when a claim is submitted.** The claim representative must respond quickly to any claim notification. Evidence must be gathered and witnesses interviewed while information is still fresh in their minds. Quick response also ensures timely claim settlement for covered claims, which offers peace of mind to insureds. Claim coverage is the primary reason people purchase insurance. Insureds are probably depending on the claim payment to begin reconstructing what they had before the loss occurred.
- **To obtain adequate information.** Enough information must be gathered to ensure that claims are settled properly. The adjuster needs to be sure that claims are covered as well as being sure when they are not. A reservation of rights letter may need to be sent stating that while the company is still investigating the claim, they reserve the right to deny coverage at a later date.
- **To properly evaluate the claim.** The adjuster must determine whether the claim is covered according to policy provisions and if the claim is covered, the dollar amount that is payable.

- **To treat all parties fairly.** The claim representative must treat all parties fairly by paying claims according to the policy provisions and denying uncovered claims. They cannot let their emotions interfere while trying to help insureds who have had a loss. Failure to pay a claim that is covered by an insurance policy hurts the person who is denied a fair settlement. On the other hand, paying a claim that is not covered penalizes the insurer and all of the insurer's policyholders. If an insurer pays claims that are not covered by an insurance policy, it is likely that all the policyholders will eventually pay higher premiums. The claim representative must balance the needs of the insured and the insurance company.
5. The following are examples of specific types of damage or damages that can result from a claim. Name the type of damage that each example represents. (5 points)
- a. Homer's car is damaged in a hail storm. The insurance company adjusts the claim and issues Homer a check for \$5,000.  
**Answer:** Special damages
  - b. A court assesses a \$1,000,000 penalty against a defendant stating that the defendant was grossly negligent.  
**Answer:** Punitive damages
  - c. Juanita is awarded a total of \$500,000 for pain and suffering and the cost of her physician bills after and she is injured by an at fault driver.  
**Answer:** Compensatory damages (general and special damages)
  - d. Herbert is awarded \$800,000 for pain and suffering after he is injured in a friend's pool.  
**Answer:** General damages
  - e. Ronald is awarded \$525.71 to cover the medical bill he sustained after falling on his neighbor's cracked front sidewalk.  
**Answer:** Special damages

## Assignment 7—Quiz

1. Each of the following is an example of one element of a contract. Name the element. (4 points)
  - a. Frank fills out an insurance application for homeowners insurance. He personally signs the application. The insurance company underwriter accepts the application at the quoted price and issues the policy.
  - b. Frank is twenty-five years old. He was not under any undue influence when he signed the application.
  - c. Frank is requesting insurance on a home that he owns. His name is on the deed and he will be the first named insured on the insurance policy.
  - d. Frank submits a personal check to his insurance agent at the same time he submits his application. In the new policy that Frank receives from the insurer, the insurer promises to pay any claims as specified in the contract, conditioned on the occurrence of covered losses.

2. Match the following contracts to the correct examples. (6 points)

- |  |   |
|--|---|
| ___ 1. A personal contract                                 | A. Megan pays \$800 annually for her homeowners policy. Her home is valued with a replacement cost of \$240,000. If Megan has a covered total loss, she will receive \$240,000 to replace her dwelling. |
| ___ 2. A conditional contract                              | B. Megan decides that she is going to sell her home. She offers to transfer her homeowners policy to the new owners. Assignment of this policy is not allowed.  |
| ___ 3. A contract involving an exchange of unequal amounts | C. The insurer needs only to pay for a covered claim.   |
| ___ 4. A contract of utmost good faith                     | D. Insureds and insurers are expected to be ethical with one another in their business dealings.  |
| ___ 5. A contract of adhesion                              | E. The insured should not profit from any covered claim.  |
| ___ 6. A contract of indemnity                             | F. Once an insured receives a contract (policy) in the mail, the insured cannot make amendments to it and send it back to the company to be revised.  |

3. Each of the following is an item found in an insurance policy. List the correct part of the policy where you would find each item. (5 points)

Example : The named insured

Answer: Found in the declarations page

a. Statement of insurer's promise to pay

Found in \_\_\_\_\_

b. The meaning of "insured"

Found in \_\_\_\_\_

c. Insured's "duties after a loss"

Found in \_\_\_\_\_

d. Deductible amount

Found in \_\_\_\_\_

e. What is not covered

Found in \_\_\_\_\_

## Assignment 7—Quiz Answers

1. Each of the following is an example of one element of a contract. Name the element. (4 points)
- a. Frank fills out an insurance application for homeowners insurance. He personally signs the application. The insurance company underwriter accepts the application at the quoted price and issues the policy.

**Answer:** Agreement (offer and acceptance)

- b. Frank is twenty-five years old. He was not under any undue influence when he signed the application.

**Answer:** Competent parties

- c. Frank is requesting insurance on a home that he owns. His name is on the deed and he will be the first named insured on the insurance policy.

**Answer:** Legal purpose

- d. Frank submits a personal check to his insurance agent at the same time he submits his application. In the new policy that Frank receives from the insurer, the insurer promises to pay any claims as specified in the contract, conditioned on the occurrence of covered losses.

**Answer:** Consideration

2. Match the following definition to the correct example: (6 points)

**Answers:**

- |   |   |
|---|---|
| <u>B</u> 1. A personal contract                                 | A. Megan pays \$800 annually for her homeowners policy. Her home is valued with a replacement cost of \$240,000. If Megan has a covered total loss, she will receive \$240,000 to replace her dwelling. |
| <u>C</u> 2. A conditional contract                              | B. Megan decides that she is going to sell her home. She offers to transfer her homeowners policy to the new owners. Assignment of this policy is not allowed.  |
| <u>A</u> 3. A contract involving an exchange of unequal amounts | C. The insurer needs only to pay for a covered claim.   |
| <u>D</u> 4. A contract of utmost good faith                     | D. Insureds and insurers are expected to be ethical with one another in their business dealings.  |
| <u>F</u> 5. A contract of adhesion                              | E. The insured should not profit from any covered claim.  |
| <u>E</u> 6. A contract of indemnity                             | F. Once an insured receives a contract (policy) in the mail, the insured cannot make amendments to it and send it back to the company to be revised.  |

3. Each of the following is an item found in an insurance policy. List the correct part of the policy where you would find each item. (5 points)

Example: The named insured

Answer: Found in declarations

a. Statement of insurer's promise to pay

**Answer:** Found in Insuring Agreement

b. The meaning of "insured"

**Answer:** Found in Definitions

c. Insured's "Duties after a Loss"

**Answer:** Found in Conditions

d. Deductible amount

**Answer:** Found in Declarations

e. What is not covered

**Answer:** Found in Exclusions

## Assignment 8—Quiz

1. Each of the following is a type of business property. Identify the type. (5 points)

Example: Elevator: Building

a. Air conditioning equipment:

b. Finished goods:

c. Credit card slips:

d. All terrain vehicles:

e. Air tanks:

2. Identify the key word or phrase that each of the following describes. (6 points)

a. A cause of loss, such as theft.

b. Something that increases the chance that a loss will occur, such as icy roads.

c. An insurance policy that provides coverage to losses caused only by those perils listed and described in the policy.

d. An insurance policy that provides coverage for “risk of direct loss.”

e. With a named perils policy, for coverage to apply, the \_\_\_\_\_ must prove that the loss was covered by a covered cause of loss.

f. With a special form coverage policy, if a loss to covered property occurs, it is initially assumed that coverage applies. However, coverage may be denied if the \_\_\_\_\_ can prove that the loss was caused by an excluded cause of loss.

3. Each of the following describes a potential financial consequence of a property loss. Name the possible consequence and what party is affected. (6 points)
- a. While on vacation, an insured loses his or her camera.
  
  - b. A dry cleaner suffers a fire loss and cannot do business for sixty days.
  
  - c. A newspaper's lead printing press is damaged and cannot operate. The newspaper pays to have a new part shipped overnight from Germany.

4. Match each of the following definitions or examples with the key word or phrase that best describes it. (10 points)

- |   |   |
|---|---|
| ___ 1. A fire located in a fireplace.   | A. Proximate cause                      |
| ___ 2. A fire located in an insured's chimney.  | B. Robbery                              |
| ___ 3. Earthquake damage causes a fire. The earthquake damage is not covered by the insurance policy. The fire damage is covered by the insurance policy.           | C. Friendly fire                        |
| ___ 4. Willful and malicious damage or destruction of property.   | D. Vandalism                            |
| ___ 5. An unknown person breaks a large window and enters a residence. He or she steals the insured's purse.  | E. Time element loss (or indirect loss) |
| ___ 6. An armed gunman enters a bank and demands money from the teller's drawer. If the teller refuses to comply, the gunman threatens bodily injury to the teller. | F. Hostile fire                         |

\_\_\_ 7. Damage to an insured's automobile by flood.

\_\_\_ 8. Fog.

\_\_\_ 9. Fire.

\_\_\_ 10. Loss of income.

G. Burglary

H. Peril

I. Other than collision  
(comprehensive)

J. Hazard

## Assignment 8—Quiz Answers

1. Each of the following is a type of business property. Identify the type. (5 points)

Example: Elevator: Building

a. Air conditioning equipment:

**Answer:** Buildings

b. Finished goods:

**Answer:** Personal property

c. Credit card slips:

**Answer:** Money and securities

d. All terrain vehicles:

**Answer:** Motor vehicles and trailers

e. Air tanks:

**Answer:** Boiler and machinery

2. Identify the key word or phrase that each of the following describes. (6 points)

a. A cause of loss, such as theft.

**Answer:** Peril

b. Something that increases the chance that a loss will occur, such as icy roads.

**Answer:** Hazard

c. An insurance policy that provides coverage to losses caused only by those perils listed and described in the policy.

**Answer:** Named Perils policy

d. An insurance policy that provides coverage for “risk of direct loss.”

**Answer:** Special Form or Open Perils policy

e. With a named perils policy, for coverage to apply, the \_\_\_\_\_ must prove that the loss was covered by a covered cause of loss.

**Answer:** Insured

- f. With a special form coverage policy, if a loss to covered property occurs, it is initially assumed that coverage applies. However, coverage may be denied if the \_\_\_\_\_ can prove that the loss was caused by an excluded cause of loss.

**Answer:** Insurer

3. Each of the following describes a potential financial consequence of a property loss. Name the possible consequence and what party is affected. (6 points)

(Other answers may be acceptable.)

- a. While on vacation, an insured loses his or her camera.

**Answer:** Reduction in value

The property owner would be affected due to this loss.

- b. A dry cleaner suffers a fire loss and cannot do business for sixty days.

**Answer:** Lost income

The property owner would be affected due to this loss.

- c. A newspaper's lead printing press is damaged and cannot operate. The newspaper pays to have a new part shipped overnight from Germany.

**Answer:** Increased expenses

The property owner would be affected due to this loss.

Secured lenders would be affected by this loss if the newspaper had a loan on the equipment that was damaged.

4. Match each of the following definitions or examples with the key word or phrase that best describes it. (10 points)

**Answers:**

C 1. A fire located in a fireplace.                      A. Proximate cause

F 2. A fire located in an insured's chimney.            B. Robbery

A 3. Earthquake damage causes a fire.                      C. Friendly fire  
The earthquake damage is not covered  
by the insurance policy. The fire damage  
is covered by the insurance policy.

D 4. Willful and malicious damage                      D. Vandalism  
or destruction of property.

- |          |   |    |                                      |
|----------|---|----|--------------------------------------|
| <u>G</u> | 5. An unknown person breaks a large window and enters a residence. He or she steals the insured's purse.  | E. | Time element loss (or indirect loss) |
| <u>B</u> | 6. An armed gunman enters a bank and demands money from the teller's drawer. If the teller refuses to comply, the gunman threatens bodily injury to the teller. | F. | Hostile fire                         |
| <u>I</u> | 7. Damage to an insured's automobile by flood.  | G. | Burglary                             |
| <u>J</u> | 8. Fog.   | H. | Peril                                |
| <u>H</u> | 9. Fire.  | I. | Other than collision (comprehensive) |
| <u>E</u> | 10. Loss of income.   | J. | Hazard                               |

## Assignment 9—Quiz

1. The following are examples of five different categories of law. Determine which body of law each example best represents. (5 points)
  - a. Wrongful act against society
  
  
  
  
  
  
  
  
  
  
  - b. The right to a trial by jury
  
  
  
  
  
  
  
  
  
  
  - c. Court precedents
  
  
  
  
  
  
  
  
  
  
  - d. Infringement of rights against an individual
  
  
  
  
  
  
  
  
  
  
  - e. Laws and ordinances
  
2. The following are examples of elements of negligence. Determine which element each example best represents. (4 points)
  - a. Big Apple grocery store keeps its floors clean and dry.
  
  
  
  
  
  
  
  
  
  
  - b. Big Apple has a new produce employee who adjusts the produce misters so that they spray all over the floor instead of all over the produce.
  
  
  
  
  
  
  
  
  
  
  - c. The new produce employee drops a few heads of lettuce while adjusting the misters and does not pick up the leaves that stick to the floor.
  
  
  
  
  
  
  
  
  
  
  - d. The new produce employee dropped a few heads of lettuce while adjusting the misters and did not pick up the leaves that had stuck to the floor. A customer in the Big Apple store slips on a lettuce leaf and breaks his or her ankle.

3. Each of the following is an example of an intentional tort. Name the intentional tort described by each example. (5 points)
- Ruth threatens Amanda with bodily injury.
  - After threatening Amanda, Ruth breaks Amanda's arm.
  - Joseph writes an inflammatory article about Michael and publishes it in the local paper.
  - Helen gets on the loud speaker in her office and accuses Linda of stealing her purse.
  - On his way out of Big Apple, John is stopped by a security guard. The guard accuses John of stealing gum and locks him in the store office for an hour before he calls the police. Once the police arrive, John shows the receipt for the gum.
4. Each of the following is an example of a type of damage that is covered by an insurance policy. Name the general category of damages that each example falls under. (3 points)
- Reimbursement for physician's bills
  - Compensation for pain and suffering
  - Punishment for outrageous conduct
5. Fill in the blank (10 points)
- A lease agreement between a landlord and a tenant or a contractor and a subcontractor can be known as \_\_\_\_\_.
  - While out making a delivery for his employer, Hank negligently causes damage with his vehicle. His employer may be held \_\_\_\_\_ liable.
  - Legal cases involving insurance usually involve \_\_\_\_\_ law.
  - The three types of damages that a court could award are \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_.

- e. Defense costs are paid \_\_\_\_\_ the policy limits.
- f. Two examples of individuals, other than the named insured, who might be covered under a liability policy are \_\_\_\_\_ and \_\_\_\_\_ .
- g. There are two types of losses. Fire damage is considered a(n) \_\_\_\_\_ loss, while loss of income is considered a(n) \_\_\_\_\_ loss.
- h. \_\_\_\_\_ basis coverage covers liability claims that occur during the policy period, regardless of when the claim was submitted to the insurer.
- i. \_\_\_\_\_ coverage covers liability claims that are made (submitted) during the policy period for covered events that occur on or after the retroactive date and before the end of the policy period.
- j. Under a(n) \_\_\_\_\_ limit, the claim amount reflects payment for all covered losses during the coverage period, which is usually the same as the policy period.

## Assignment 9—Quiz Answers

1. The following are examples of five different categories of law. Determine which body of law each example best represents. (5 points)
  - a. Wrongful act against society  
**Answer:** Criminal law
  - b. The right to a trial by jury  
**Answer:** Constitutional law
  - c. Court precedents  
**Answer:** Common law
  - d. Infringement of rights against an individual  
**Answer:** Civil law
  - e. Laws and ordinances  
**Answer:** Statutory law
  
2. The following are examples of elements of negligence. Determine which element each example best represents. (4 points)
  - a. Big Apple grocery store keeps its floors clean and dry.  
**Answer:** Duty owed to another
  - b. Big Apple has a new produce employee who adjusts the produce misters so that they spray all over the floor instead of all over the produce.  
**Answer:** Breach of duty
  - c. The new produce employee drops a few heads of lettuce while adjusting the misters and does not pick up the leaves that stick to the floor.  
**Answer:** Unbroken chain of events
  - d. The new produce employee dropped a few heads of lettuce while adjusting the misters and did not pick up the leaves that had stuck to the floor. A customer in the Big Apple store slips on a lettuce leaf and breaks his or her ankle.  
**Answer:** Injury or damage

3. Each of the following is an example of an intentional tort. Name the intentional tort described by each example. (5 points)
- a. Ruth threatens Amanda with bodily injury.  
**Answer:** Assault
  - b. After threatening Amanda, Ruth breaks Amanda's arm.  
**Answer:** Battery
  - c. Joseph writes an inflammatory article about Michael and publishes it in the local paper.  
**Answer:** Libel
  - d. Helen gets on the loud speaker in her office and accuses Linda of stealing her purse.  
**Answer:** Slander
  - e. On his way out of Big Apple, John is stopped by a security guard. The guard accuses John of stealing gum and locks him in the store office for an hour before he calls the police. Once the police arrive, John shows the receipt for the gum.  
**Answer:** False Arrest and false imprisonment
4. Each of the following is an example of a type of damage that is covered by an insurance policy. Name the general category of damages that each example falls under. (3 points)
- a. Reimbursement for physician's bills  
**Answer:** Special damages
  - b. Compensation for pain and suffering  
**Answer:** General damages
  - c. Punishment for outrageous conduct  
**Answer:** Punitive damages
5. Fill in the blank. (10 points)
- a. A lease agreement between a landlord and a tenant or a contractor and a subcontractor can be known as a(n) \_\_\_\_\_.  
**Answer:** Hold-harmless agreement
  - b. While out making a delivery for his employer, Hank negligently causes damage with his vehicle. His employer may be held \_\_\_\_\_ liable.  
**Answer:** Vicariously

c. Legal cases involving insurance usually involve \_\_\_\_\_ law.

**Answer:** Civil

d. The three types of damages that a court could award are \_\_\_\_\_.

**Answer:** Special, general, and punitive

e. Defense costs are paid \_\_\_\_\_ to the policy limits.

**Answer:** In addition

f. Two examples of individuals other than the named insured who might be covered under a liability policy are \_\_\_\_\_ and \_\_\_\_\_.

**Answer:** Relatives who reside in the household; children in the care of the named insured or spouse; any person or organization legally responsible for animals or watercraft owned by an insured (except in business situations); employees using a covered vehicle, such as a lawn tractor; and people using a covered vehicle on an insured location with the named insured's consent.

g. There are two types of losses. Fire damage is considered a(n) \_\_\_\_\_ loss, while loss of income is considered a(n) \_\_\_\_\_ loss.

**Answers:** Direct; indirect

h. \_\_\_\_\_ basis coverage covers liability claims that occur during the policy period, regardless of when the claim was submitted to the insurer.

**Answer:** Occurrence

i. \_\_\_\_\_ coverage covers liability claims that are made (submitted) during the policy period for covered events that occur on or after the retroactive date and before the end of the policy period.

**Answer:** Claims made

j. Under a(n) \_\_\_\_\_ limit, the claim amount reflects payment for all covered losses during the coverage period, which is usually the same as the policy period.

**Answer:** Aggregate

## Assignment 10—Quiz

1. Each of the following is an example of a step in the risk management process.  
Name the risk management step that applies. (5 points)
  - a. Put into practice steps that were suggested after the risk management review.
  - b. Determine any hazardous activities that may be going on in a commercial business, such as manufacturing fireworks.
  - c. Determine how you are going to protect yourself if a loss occurs from the manufacturing of fireworks. Will an insurance policy cover you?
  - d. Several risk management techniques are suggested and one or more is chosen. The business may choose to avoid manufacturing fireworks.
  - e. Revisit the program you have put into practice to determine its successfulness.
2. Name the risk management technique that each of the following examples, describes. (5 points)
  - a. Purchase a policy.
  - b. Increase insurance policy deductible.
  - c. Stop an activity.

d. Lease agreement.

e. Install a sprinkler system.

3. Match the key word or phrase with the correct definition. (10 points)

- |   |                                       |
|---|---------------------------------------|
| ___ 1. The process of making and implementing decisions to deal with loss exposures.  | A. Loss prevention and loss retention |
| ___ 2. Leads to losses from damage to or loss of tangible or intangible assets.   | B. Risk management                    |
| ___ 3. A diagram that depicts the flow of a particular operation or set of related operations within an organization.   | C. Flowchart                          |
| ___ 4. A term used to indicate how often losses occur or are expected to occur.   | D. Loss frequency                     |
| ___ 5. A term that refers to the dollar amount of damage that results or might result from loss exposures.  | E. Avoidance                          |
| ___ 6. Loss control.  | F. Noninsurance transfer              |
| ___ 7. A technique in which one party transfers the potential financial consequences of a particular loss exposure to another party that is not an insurance company. | G. Loss severity                      |
| ___ 8. Increasing a deductible is a form of this.   | H. Property loss exposure             |
| ___ 9. A risk management tool in the form of a checklist or questionnaire listing potential loss exposures that a household or an organization might face.            | I. Loss exposure survey               |
| ___ 10. A technique that eliminates a loss exposure and reduces the chance of a loss to zero.   | J. Retention                          |

## Assignment 10—Quiz Answers

1. Each of the following is an example of a step in the risk management process.

Name the risk management step that applies. (5 points)

a. Put into practice steps that were suggested after the risk management review.

**Answer:** Implement the technique

b. Determine any hazardous activities that may be going on in a commercial business, such as manufacturing fireworks.

**Answer:** Identify and analyze loss exposures

c. Determine how you are going to protect yourself if a loss occurs from the manufacturing of fireworks. Will an insurance policy cover you?

**Answer:** Examine risk management techniques

d. Risk management techniques are looked at and one or more is chosen. The business may choose to avoid manufacturing fireworks.

**Answer:** Select the appropriate risk management technique

e. Revisit the program you have put into practice to determine its successfulness.

**Answer:** Monitor and modify the risk management program

2. Name the risk management technique that each of the following examples describes:

a. Purchase a policy.

**Answer:** Risk transfer (insurance transfer)

b. Increase insurance policy deductible.

**Answer:** Retention

c. Stop an activity.

**Answer:** Avoidance

d. Lease agreement.

**Answer:** Risk transfer (noninsurance transfer)

e. Install a sprinkler system.

**Answer:** Loss control

3. Match the key word or phrase with the correct definition. (10 points)

**Answers:**

- |          |   |                                       |
|----------|---|---------------------------------------|
| <u>B</u> | 1. The process of making and implementing decisions to deal with loss exposures.  | A. Loss prevention and loss retention |
| <u>H</u> | 2. Leads to losses from damage to or loss of tangible or intangible assets.   | B. Risk management                    |
| <u>C</u> | 3. A diagram that depicts the flow of a particular operation or set of related operations within an organization.   | C. Flowchart                          |
| <u>D</u> | 4. A term used to indicate how often losses occur or are expected to occur.   | D. Loss frequency                     |
| <u>G</u> | 5. A term that refers to the dollar amount of damage that results or might result from loss exposures.  | E. Avoidance                          |
| <u>A</u> | 6. Loss control.  | F. Noninsurance transfer              |
| <u>F</u> | 7. A technique in which one party transfers the potential financial consequences of a particular loss exposure to another party that is not an insurance company. | G. Loss severity                      |
| <u>J</u> | 8. Increasing a deductible is a form of this.   | H. Property loss exposure             |
| <u>I</u> | 9. A risk management tool in the form of a checklist or questionnaire listing potential loss exposures that a household or an organization might face.            | I. Loss exposure survey               |
| <u>E</u> | 10. A technique that eliminates a loss exposure and reduces the chance of a loss to zero.   | J. Retention                          |

