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**"Risk Management: Property and Casualty"**

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## **"Risk Management: Property and Casualty"**

### **Self Study Examination     50 Questions**

**Instructions:** This examination consists of 50 questions in multiple choice format. Four possible answers have been presented for each question. On your answer sheet indicate the best answer to each question. There is no penalty for guessing incorrectly.

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#### **Section I: The Parameters of Risk Management**

- 1) Generally speaking, the field of risk management is concerned with:
  - A) Insurance sales.
  - B) Managing risk.
  - C) Treating loss exposures.
  - D) None of the above.
- 2) Loss exposures are:
  - A) Situations in which an insured may lose money.
  - B) Sets of circumstances presenting a possibility of a loss.
  - C) Sets of circumstances which have resulted in losses to insureds.
  - D) a and b.
- 3) Items at risk can be classified as either:
  - A) Assets
  - B) Income
  - C) Intangible interests such as health
  - D) All of the above
- 4) Losses can result from perils which can be classified as:
  - A) Natural
  - B) Human
  - C) Economic
  - D) All of the above
- 5) Which of the following are not natural causes of perils?
  - A) Fires, hurricanes, floods
  - B) Earthquakes, storms, volcanic disturbances
  - C) Riots, work stoppages, war
  - D) Hail, insect infestation, shortages of natural resources.
- 6) Pure loss exposures are those exposures which can result in
  - A) Loss
  - B) No loss
  - C) Neither a nor b
  - D) a and b
- 7) Risk managers are concerned with managing and controlling:
  - A) The costs of losses which already have been suffered.
  - B) The costs of dealing with losses which have not already occurred but may occur at some time.
  - C) Both of the above.
  - D) Neither of the above.
- 8) Which of the following is not part of the risk management process?
  - A) Identifying and analyzing loss exposures.
  - B) Selecting techniques to be applied to each exposure.
  - C) Financing recovery after a loss has taken place.
  - D) Monitoring decisions made and making appropriate adjustments.
- 9) Retention may be:
  - A) Unintentional
  - B) Intentional
  - C) Neither unintentional or intentional
  - D) Either unintentional or intentional

- 10) Which of the following steps are not critical to the risk management process?
- A) Establish standards of performance
  - B) Measure actual performance against standards of performance
  - C) Modify the risk management plan where necessary
  - D) All of the above are critical to the process of risk management.

## Section II. Limiting Loss Exposures With Risk Control

- 11) In which of the following cases would the organization be likely to avoid the risk exposure?
- A) A mining company identifies an exposure associated with the use of explosives.
  - B) A manufacturing company identifies an exposure associated with delivery of its products to distributors.
  - C) A manufacturing company identifies an exposure associated with tools which do not have sufficient safety guards.
  - D) All of the above.
- 12) Once the avoidance technique has been implemented,
- A) Avoidance is the only loss control technique that need not be monitored. Once it is employed, success is guaranteed.
  - B) Constant monitoring should be used to ascertain whether the avoidance was properly implemented and whether it is still appropriate.
  - C) The avoidance should be monitored occasionally because the insurance policy requires it.
  - D) None of the above.
- 13) An avoidance may no longer be appropriate if:
- A) The organization's objectives have changed
  - B) The conditions that made the avoidance appropriate have changed.
  - C) No losses have occurred due to good fortune.
  - D) All of the above.

- 14) Loss control techniques are
- A) Techniques designed to reduce the frequency of losses.
  - B) Techniques designed to reduce the severity of losses.
  - C) Both of the above.
  - D) Neither of the above.
- 15) Under the energy release theory, the primary emphasis is placed on:
- A) The acts of persons within the sphere of influence of the loss exposure.
  - B) The physical engineering problems which cause the accident
  - C) The development of an effective loss control strategy.
  - D) All of the above
- 16) Which of the following are valid strategies under the Energy Release theory?
- A) Preventing formation of the hazard in the first place.
  - B) Separating, in time and space, the hazard from that which is to be protected.
  - C) To make what is to be protected more resistant to damage.
  - D) All of the above.
- 17) The primary difference between the domino theory and the energy release theory is:
- A) The domino theory emphasizes the actions of persons while the energy release theory emphasizes physical engineering conditions.
  - B) The domino theory emphasizes sequences rather than human actions.
  - C) The energy release theory is essentially limited in its application.
  - D) The energy release theory emphasizes environmental hazards and their remediation.
- 18) Assume that an automobile driven at 100 miles per hour crashes into a rigid obstacle, causing injury and loss of life. Under the theories of Heinrich and Haddon,
- A) Heinrich would emphasize the unsafe act of speeding as a personal fault of the driver.
  - B) Haddon's approach would emphasize the amount of momentum created by the act of speeding, and its potential to increase damages.
  - C) Both of the above.
  - D) Neither of the above.

### Section III. Classification of Risk Control Measures

- 19) Which of the following is not a common method of risk control classification?
- A) By Subjective orientation
  - B) By Objective orientation
  - C) By Approach
  - D) By Timing of Application
- 20) Loss control measures which seek to reduce the severity of losses are known as
- A) Loss reduction measures
  - B) Loss prevention measures
  - C) Frequency reduction measures
  - D) None of the above.
- 21) Common loss reduction measures include:
- A) Utilizing automatic fire sprinkler systems within properties.
  - B) Purchasing all-risk coverage
  - C) Placing personnel who have been injured on furlough
  - D) All of the above.
- 22) The human behavior approach concentrates on
- A) The minimization of the financial impact of the loss.
  - B) The behavior of the persons affecting the loss exposure.
  - C) The physical aspects of the loss exposure.
  - D) All of the above.
- 23) Further timing classifications are based on the phase of the occurrence. Regarding these classifications, which of the following is true?
- A) Loss prevention techniques are applied during the planning phase.
  - B) Loss reduction techniques are applied contemporaneously with the occurrence of the accident.
  - C) Salvage activities take place after the occurrence of the accident.
  - D) All of the above.

### Section IV. STRUCTURAL AND LEGAL ASPECTS OF PROPERTY AND LIABILITY INSURANCE

- 24) Which of the following is not a function that policy limits serve:
- A) Helping to achieve goals
  - B) Enforcing the principle of indemnity
  - C) Clarifying the insurer's obligations
  - D) Accommodating sellers by giving them more options for offering coverage to potential consumers.
- 25) The primary determinant of the maximum amounts payable for covered losses is:
- A) Policy limits
  - B) Deductibles
  - C) The principle of indemnity
  - D) Loss valuation provisions
- 26) There are several insurable interests recognized and commonly used to support the purchase of life insurance. One of the interests is:
- A) The interest of a creditor in the life of a debtor
  - B) The interest of an employer in the life of an employee
  - C) Both a and b
  - D) Neither a nor b
- 27) In general, a person has an insurable interest in the life of another if:
- A) They are closely related by blood or marriage
  - B) One of them is financially dependent on the other
  - C) They have a business relationship of such a nature that premature death of the insured would cause financial loss to the business beneficiary.
  - D) All of the above
- 28) What is the main purpose of requiring insurable interests:
- A) To minimize intentional losses
  - B) To prevent wagering through insurance
  - C) To enforce the principle of indemnity
  - D) All of the above

- 29) When only one property insurance policy is involved, which of the following devices does not help to preserve the principle of indemnity:
- A) Insured negotiation options
  - B) Claims settlement practices
  - C) Policy limits
  - D) Underwriting restrictions

- 30) What is the most accurate description of a blanket limit?
- A) A policy limit that applies to a single item or class of property
  - B) A policy limit that applies to two or more items or classes of property.
  - C) A policy limit that covers the insured for all possible losses
  - D) None of the above

#### SECTION V: FINANCIAL LOSS EXPOSURES

- 31) Which one of the following is a noninsurance transfer?
- A) Control-type measures
  - B) Loss financing techniques
  - C) a and b
  - D) Mechanism techniques

- 32) What are the various affects that a control-type noninsurance transfer can have on loss exposures?
- A) The losses might have a lower potential frequency
  - B) The losses might be more predictable
  - C) The losses might have a lower potential severity
  - D) All of the above

- 33) Noninsurance transfers differ from insurance in which one of the following ways:
- A) Noninsurance matters are usually matters that are only incidental to the contract.
  - B) Noninsurance transfers are sold by insurers
  - C) There is a significant pooling of exposure units in noninsurance transfers.
  - D) Noninsurance transfers are legally considered insurance

- 34) Insurance is defined conceptually as:
- A) A technique that makes it possible to transfer the financial consequences of potential accidental losses from the insured entity to an insurer.
  - B) The protection provided under an insurance contract.
  - C) Both a and b
  - D) Neither a nor b

- 35) As a mechanism, insurance differs from most noninsurance transfers in the following way(s):
- A) The insurer pools or combines many loss exposures.
  - B) The insureds contribute to a fund out of which cash payments or services are provided.
  - C) The insurance contract deals solely with the transfer.
  - D) All of the above

- 36) Both insurance companies and insurance producers provide many risk management services. Which service does the producer provide that the company does not?
- A) Loss control services
  - B) Selection of an insurer
  - C) Management services
  - D) Assistance in meeting legal

- 37) Which of the following is a factor in premium costs:
- A) Opportunity cost
  - B) Expected loss
  - C) The expense component
  - D) All of the above

- 38) Which of the following types of retention is the result of a conscious decision?
- A) Planned retention
  - B) Unplanned retention
  - C) Intentional retention
  - D) None of the above

- 39) What are the two basic characteristics of retention?
- A) Financial and non-financial technique
  - B) Nonfinancial technique and residual method
  - C) Residual method and Financial technique
  - D) Non residual method and financial technique

- 40) Which of the following would be a situation conducive to using retention as a technique?
- A) When no other alternatives are available
  - B) When the worst loss is not very serious
  - C) When the loss is predictable
  - D) All of the above
- 41) In what situation can retention permit expense savings?
- A) If the services provided by the insurer can be provided by the entity at a cost lower than the expense and profit portion of the premium.
  - B) If the entity is willing to forgo all of the services provided by the insurer.
  - C) Both a and b
  - D) Neither a nor b
- 42) Which of the following is false regarding the fundamental concepts involving tax implications?
- A) If the business purchases property insurance, the premium is not deductible.
  - B) If insurance proceeds exceed the book value of a property loss the excess is taxable based on capital gains rates
  - C) If insurance proceeds exceed the book value of a property loss, the income tax will be higher in future years than if the replacement property were not purchased with insurance proceeds.
  - D) All of the above are true
- 43) Once a decision has been made to retain a loss exposure, action for retention must be taken based on that decision. Action includes which of the following:
- A) Controlling loss costs
  - B) Evaluating and paying losses
  - C) Arranging funding for retained losses
  - D) All of the above
- 44) If there is a decision to retain a loss exposure, what are the two most important methods to determine how the losses will be funded?
- A) Current net income and borrowing
  - B) Borrowing and earmarked assets
  - C) Current net income and captive insurers
  - D) Captive insurers and borrowing
- 45) Which one of the following is not an action for retention?
- A) Meeting legal responsibilities
  - B) Controlling output
  - C) Loss control
  - D) Funding retained losses
- 46) Generally speaking, performance standards should be established for:
- A) The worst losses sustained
  - B) Fluctuations in the annual losses
  - C) The expenses incurred in servicing the plan
  - D) All of the above
- 47) Why is it important for the risk manager to decide whether the retention decision needs to be adjusted or not?
- A) Tracking decisions can make or break a business entity.
  - B) Each of the factors that affect the retention decision are subject to change.
  - C) Both a and b
  - D) Neither a nor b
- 48) What is the best way to split the amount of the exposure (retain part of the exposure)?
- A) Purchase insurance that focuses less on the losses and more on the gains.
  - B) Purchase insurance that is less than the maximum possible loss.
  - C) Neither a nor b
  - D) Both a and b
- 49) What are the advantages of combined retention (retention and insurance)?
- A) It allows the business to purchase protection against the losses in excess of the deductible amount.
  - B) It reduces the uncertainty of the risk manager
  - C) Both a and b
  - D) There are no advantages of combined retention
- 50) What is the purpose of control-type noninsurance transfers?
- A) They alter the entity's exposures
  - B) They reduce the loss frequency
  - C) They reduce the variation in potential losses
  - D) All of the above