

Risk Management & Insurance Planning

Choose the CORRECT option (A-E) listed below, more than one answer may be correct.

QUESTION 1 - An individual has decided to purchase life insurance and comes to you as his Financial Planner. You also hold an Insurance Agency License. In order to program a system of life insurance to meet the individual's needs, which among the following would be the first step:

- A) Selecting an insurance company.
- B) Selecting the type of policy that the individual wants to purchase.
- C) Analyzing the individual's needs and determining the amount of life insurance coverage needed.
- D) Determining the rate of return that the individual would like to receive.
- E) I am not attempting

QUESTION 2 - Acting upon your advice Dr. Mishra decides to take a life insurance plan for himself. At the time of choosing mode of payment, Dr Mishra has asked you the difference between various modes of payment of insurance premium (monthly/quarterly/half yearly/yearly) from claims perspective, in case if any. According to you _____.

- A) yearly mode is better because it offers a rebate in premium to the Life assured
- B) choice may be different depending upon the age of the life assured
- C) there is no difference among all options from claims perspective
- D) I am not attempting
- E) monthly mode is better because in case of claim the same shall be payable against the minimum possible paid premium

QUESTION 3 - With respect to insurance, which of the following statement/s are true?

- A) NEED-BASED approach for calculating life insurance requirement does not take into consideration the existing life insurance policies
- B) NEED-BASED approach for calculating life insurance requirement does not take into consideration the current expenses
- C) If the life insurance policy is endorsed under MWP Act, 1874 then Creditors have residual claim on policy proceeds
- D) Deposit Insurance and Credit Guarantee Corporation

insures deposits in Banks up to Rs 1 lac.

E) THE MULTIPLE approach for calculating life insurance requirement does not take into consideration the rate of return

QUESTION 4 - The Dill family home has a replacement cost of Rs 105,000, and they carry Rs 80,000 worth of insurance. In the event of an Rs 50,000 loss due to fire, how much would the insurance company owe them?

- A) Rs 45040
- B) Rs 23810
- C) Rs 38095
- D) Rs 50000
- E) Rs 37890

QUESTION 5 - Which of the following sections as per insurance act is correct

1. Section 45 - Policy not to be called in question on ground of miss-statement after two years unless fraudulent intention established
2. Section 42 deals with Licensing of insurance agents
3. Section 64VB says that risk to be assumed only after premium is received.
4. Section 29 deals with nomination

- A) 1, 2, & 3 correct
- B) 1, & 3 correct
- C) 2, & 4 correct
- D) 4 only correct
- E) All correct

QUESTION 6 - Mediciam policy in India provide the following benefits:

1. Cumulative bonus is allowed for a claim free year
2. Reimbursement of Hospitalization expenses.
3. Domiciliary hospitalization expenses.
4. Accident benefit

- A) 1, 2, & 3 correct
- B) 1, & 3 correct
- C) 2, & 4 correct
- D) 4 only correct
- E) All correct

QUESTION 7 - Insurable liability in case of 3rd party liability insurance risk is best defined as:

- A) The risk that confronts every person or business resulting

from intentional behavior that could result in the injury of another person or damage to property.

- B) I am not attempting
- C) The risk that confronts every person or business resulting from intentional or unintentional behavior that could result in the injury of another person or damage to property.
- D) The risk that confronts every person or business from a public wrong.
- E) The risk that confronts every person or business from negligence.

QUESTION 8 - Which of the following statement is correct?

- A) Payment under a deferred Annuity Plan starts immediately on payment of premium.
- B) Payment under a deferred Annuity Plan starts after a specified term.
- C) I am not attempting
- D) Payment under a deferred Annuity Plan starts on retirement.
- E) Payment under a deferred Annuity Plan starts from the age of 55 years.

QUESTION 9 - What is the usual structure of a personal accident insurance policy?

- A) The premium payable is waived after the contingency and the lump sum payment is made on the occurrence of the insured event.
- B) The extent of cover and its comprehensiveness determines the extent of payment after the event. The insurer has the rights to determine the extent of damage and the liability due.
- C) The contingencies, which can trigger insurance payment, are pre-specified. Payment is usually in installments over a specific period after the contingency.
- D) All
- E) The insured can alter the premium based on a narrow definition of the contingency, but the insurer will pay the sum assured on the occurrence.

QUESTION 10 - Insurance is possible because of the law of large numbers, which means

- A) events that are unpredictable for a large number of individuals become predictable for an individual
- B) events that are unpredictable for an individual become predictable for a large number of individuals.
- C) insurers can adequately predict the losses incurred by an individual, but are unable to predict the losses for large numbers of individuals.

D) insurers can predict whether an individual will suffer a loss better than they can predict whether a large number of individuals will suffer losses.

- E) more than 5 lac units per category

QUESTION 11 - From the insured's perspective, the purchase of insurance is an example of

- A) Loss prevention
- B) Transfer
- C) Avoidance
- D) Combination
- E) Retention

QUESTION 12 - Ragini purchased a ULIP scheme and invested Rs 1 lakh per annum regularly for 3 years, and paid the third installment a year ago. She wants to know the amount to be received if the policy is surrendered now. The details of the policy are as follows:

- (i) The premium allocation to the Fund is 85% for FY and 97% thereafter per year.
- (ii) Annual fund management charges are 1.5% of the year-end corpus.
- (iii) Policy administration charges are Rs. 720 p.a. and Mortality charges are Rs. 1,500 p.a, both recovered from the year-end corpus.
- (iv) Constant growth of investment experienced in the last three years is 15% p.a.
- (v) Surrender charge is 5% of the corpus outstanding at the time of withdrawal.

- A) NIL
- B) Rs 290500
- C) Rs 332785
- D) Rs 350300
- E) Rs 338300

QUESTION 13 - An annuity stream of cash flow payments is

- A) A set of level cash flows occurring each time period forever.
- B) A set of increasing cash flows occurring each time period for a fixed length of time.
- C) A set of level cash flows occurring each time period for a fixed length of time
- D) A set of increasing cash flows occurring each time period forever.
- E) A set of arbitrary cash flows occurring each time period for no more than 10 years.

QUESTION 14 - You advise Arvind to buy a Rs. 50 Lakh life

insurance term plan. While filling the proposal form for purchase of this term plan Arvind does not mention details of another Life Insurance policy, taken by him earlier, from a different insurance company. In case of any mishap, under which principle the claim of Arvind could be questioned by the present Insurer, if facts of his earlier insurance policy become known?

- A) Principle of Utmost Good Faith
- B) Principle of Insurable Interest
- C) Principle of Waiver and Estoppels
- D) Principle of Indemnity
- E) Principle of subrogation

QUESTION 15 - Which of the following statement is false about warranty in an insurance contract?

- (i) Declarations on the proposal form can be warranties by reference.
- (ii) Warranties help the insurer to ensure that the risk stays the same during currency of the policy.
- (iii) Warranties have to be followed literally.

- A) None
- B) (ii)
- C) (i) ,(ii) & (iii)
- D) (i) & (ii)
- E) (i)

QUESTION 16 - Sahil's father, while returning from a local post office, became a victim of hit-and-run motor accident and suffered grievous injuries. Though the FIR was lodged, the identity of the motor vehicle could not be ascertained. Sahil had to bear the total medical expenses. You have suggested Sahil that his father can take the benefit of "Solatium" Fund Scheme" of the Government of India. What maximum amount can be claimed by Sahil under this scheme?

- A) Rs 50000
- B) Rs 25000
- C) Rs 12500
- D) Rs 100000
- E) Rs 10000

QUESTION 17 - A catastrophe is not likely to be insured because _____.

- A) insurance companies may not have capital to handle losses of such magnitude
- B) catastrophes are very much insurable through good

- product design
- C) it violates the principle of insurable interest
- D) it violates the principle of sharing of losses
- E) I am not attempting

QUESTION 18 - Principle of subrogation is applied to

- 1. Motor Insurance
- 2. Life Insurance
- 3. Marine Insurance
- 4. Health Insurance

- A) 1, 2, & 3 correct
- B) 1, & 3 correct
- C) 2, & 4 correct
- D) 4 only correct
- E) All correct

QUESTION 19 - Arvind has an accident insurance policy that pays Temporary Partial Disability (TPD) benefit of Rs. 5,000 per week, for up to 104 weeks. He meets with an accident and is disabled and bedridden for 6 months. He has available leave of 4 weeks, after which he is on loss of pay. What benefit amount will he get from the insurance company?

- A) Rs 100000
- B) Rs 160000
- C) Rs 110000
- D) Rs 130000
- E) Rs 220000

QUESTION 20 - Insurable liability in case of 3rd party liability insurance risk is best defined as:

- A) The risk that confronts every person or business resulting from intentional or unintentional behavior that could result in the injury of another person or damage to property.
- B) The risk that confronts every person or business resulting from intentional behavior that could result in the injury of another person or damage to property.
- C) I am not attempting
- D) The risk that confronts every person or business from a public wrong.
- E) The risk that confronts every person or business from negligence.

QUESTION 21 – Statement

- (A) The insurer can compensate the insured only once in case of any particular critical illness.
- (B) The insured person has to survive for 30

successive days after the diagnosis of critical illness to lodge the claim.

- A) I am not attempting
- B) B is correct
- C) Both are correct
- D) Both are incorrect
- E) A is correct

QUESTION 22 - Akash has bought textile machinery, worth Rs. 50 Lakh, for his factory. On advice of a Financial Consultant, he took a reinstatement insurance contract for Rs. 50 lakh. Straight-line depreciation over a 10-year period applies here. In the third year due to heavy rains the factory was inundated and the machines were under water for over a week. Similar machines cost Rs. 55 Lakh now. Akash puts in a claim for Rs. 55 Lakh. What will he be paid by the insurance company?

- A) Rs 50 lacs
- B) Rs 45 lacs
- C) Rs 55 lacs
- D) Rs 40 lacs
- E) Rs 60 lacs

QUESTION 23 - Main difference between Life Insurance and Non-life insurance is _____.

- A) Non-life insurance is based on indemnity, life insurance is not
- B) None
- C) Object of insurance
- D) Life insurance is based on indemnity, Non-life insurance is not
- E) Nature of cover, one covers sickness other does not

QUESTION 24 - The market value of Sahil's residential property is assessed at Rs. 25 lakh. He purchased the plot 5 years ago for Rs. 2.5 lakh. He started construction last year and incurred a sum of Rs. 12.5 lakh. The land prices in that area have appreciated by 150% over the five-year period and the cost of construction over the previous year has gone up by 35%. You have advised Sahil to insure his house property. Sahil wants to know for what approximate amount he should insure his house property.

- A) Rs 23 lacs
- B) Rs 25 lacs
- C) Rs 27 lacs
- D) Rs 17 lacs
- E) Rs 15 lacs

QUESTION 25 - Recently one of the life insurance agents has informed Dr. Mishra that if one takes a life insurance policy under Key Man Insurance, one can get deduction of the premium of this policy from their taxable income. According to you _____.

- A) This is applicable on second life insurance policy only
- B) Key Man Insurance is not applicable in his context
- C) None of the above
- D) Dr. Mishra can claim deduction but the maturity value of this policy shall be taxable in his hands
- E) All of the above

QUESTION 26 - In property insurance terminology, indirect losses are the costs of

- A) repairing property destroyed.
- B) additional living expenses following a direct loss.
- C) None of the option
- D) replacing property destroyed
- E) personal liability coverages.

QUESTION 27 - Which of the following does not fall into one of the broad categories of insurable risk?

- A) Loss of property due to fire
- B) None
- C) Liability for loss resulting from negligent use of the property
- D) Financial loss, particularly inability to make mortgage payments, as a result of death of the wage earner
- E) Gambling losses at a casino

QUESTION 28 - Critical illness rider in life insurance provides_____.

- A) assured benefits for major illness
- B) 20% of assured benefit for major illness
- C) long term care for major illness.
- D) hospital expenses during illness
- E) Hospital care

QUESTION 29 - Annuities where the payments occur at the end of each time period are called _____, whereas _____ refer to annuity streams with payments occurring at the beginning of each time period.

- A) annuities due; ordinary annuities
- B) ordinary annuities; annuities due
- C) ordinary annuities; early annuities

- D) late annuities; straight annuities
E) straight annuities; late annuities

QUESTION 30 – Statement

- (A) Subrogation is a doctrine in favor of the insured.
(B) Subrogation is a doctrine in favor of the insurer.

- A) A & B both are correct
B) A & B both are incorrect
C) A is correct
D) B is correct
E) I am not attempting

QUESTION 31 - An insurer may bring an action against a third party in the name of the insured after satisfying a claim. This is as per principle of

- A) Indemnity
B) Co insurance
C) Subrogation
D) Reinsurance
E) Utmost good faith

QUESTION 32 - Choose the correct statement

1. Insurance against risk is possible because of the law of inverse proportion.
2. The homeowner's policy is designed to provide coverage for losses from fire and other risks, including theft.
3. Mortgage life insurance prevent the loss of the home in the event of the death of the principal wage earner
4. If the home covered under the insurance policy is damaged and cannot be occupied for two months while repairs are being made, the insurer will pay the necessary increased living expenses under provisions for indirect losses

- A) 1, 2, & 3 correct
B) 1, & 3 correct
C) 2, & 4 correct
D) 4 only correct
E) All correct

QUESTION 33 - Which of the following statement/s is/are true regarding training in insurance for IRDA license?

1. An agent has to undergo a practical training for 50 hours during renewal
2. A composite agent has to undergo a practical training for 75 hours
3. An agent has to undergo a practical training for 100 hours

4. An agent has to undergo a practical training for 50 hours

- A) 1, 2, & 3 correct
B) 1, & 3 correct
C) 2, & 4 correct
D) 4 only correct
E) All correct

QUESTION 34 - Dr. Mishra is planning to take a life insurance policy as per you advice. His agent has suggested him that he should take "Critical Illness Rider" on the new policy and thereby save 60% portion of his health insurance premium by taking this rider with this policy. Dr. Mishra wants to take your advice whether he should replace his health insurance by this rider as by doing this transaction he is saving 60% of his current health insurance premium. According to you, he should _____.

- A) Not replace his health insurance with this rider as both have different features
B) I am not attempting
C) Replace this health insurance, as there is a direct saving on the premium
D) Both options are same and anyone may be opted
E) Reduce his health cover by 50% and take the 50% rider as suggested by the agent

QUESTION 35 - The law of large numbers makes it possible for a company to assume risk for an insured party through a _____ upon payment of a _____.

- A) policy, fee
B) contract, fee
C) None
D) Any of the option
E) Policy, premium

QUESTION 36 - Which of the following provisions are true with regard to life insurance?

- A) Sec 80D allows a deduction of Rs 15000 for an individual assessee
B) Housing loan insurance schemes are a kind of increasing term cover insurance.
C) Premium paid is eligible for deduction u/s 80C upto Rs 1,00,000, subject o SA being more than 5 times of the premium paid.
D) Sec 80CCC benefit is within the overall limit of Sec 80C
E) Black out period is the period, starting after readjustment period and running until the youngest child in the family reaches the age of 18 years

QUESTION 37 - An absolutely assigned policy will revert to the assignor _____.

- A) when the assignee dies
- B) when the policy becomes a claim
- C) when the assignee reassigns the policy
- D) I am not attempting
- E) whenever the assignor likes it to happen

QUESTION 38 - In property insurance terminology, direct losses are all except

- A) replacing third party property damaged.
- B) None
- C) repairing property damaged.
- D) repairing property destroyed.
- E) replacing property destroyed.

QUESTION 39 - A village has 400 houses valued at Rs. 200000 each. Every year 4 houses get burnt. This risk is distributed amongst all house owners. How much each owner contributes to cover the risk?

- A) Rs 200
- B) Rs 1500
- C) Rs 500
- D) Rs 1000
- E) Rs 2000

QUESTION 40 - Which of the following is the benefit of insurance to the society?

- A) Helps people obtain credit
- B) None
- C) Cost of doing business
- D) Inflated claims
- E) Fraudulent claims

QUESTION 41 - Which of the following is/are characteristics of an insurance contract

1. Aleatory
2. Warranty
3. Conditional
4. Concealment

- A) 1, 2, & 3 correct
- B) 1, & 3 correct
- C) 2, & 4 correct
- D) 4 only correct

E) All correct

QUESTION 42 - Pension plans of insurance companies

1. Can be an immediate annuity plan of a deferred annuity plan
2. May or may not offer life cover
3. Allow premium to be paid regularly or as a lump sum one time
4. Enjoys tax benefit u/s 80D

- A) 1, 2, & 3 correct
- B) 1, & 3 correct
- C) 2, & 4 correct
- D) 4 only correct
- E) All correct

QUESTION 43 - Which of the following statement/s is/are correct?

- (i) There is extra risk in the life of a handicapped person;
- (ii) A woman observing purdah cannot be insured due to moral hazard.

- A) Both
- B) I am not attempting
- C) None
- D) Statement 2
- E) Statement 1

QUESTION 44 - For repudiating a claim under section 45 of Insurance Act, 1938, non-disclosure must be _____.

- A) Intentional
- B) None
- C) Fraudulent
- D) Material
- E) All

QUESTION 45 - Ram had taken an endowment plan for 35 years on 20/05/1990 for a sum assured of Rs. 2.5 lakh, wherein premium payable is Rs. 2,000 quarterly. He dies on 18/08/2006. Quarterly premium due in August 2006 was paid on 06/08/2006. Bonus vested: Rs. 1,44,000, Interim Bonus declared after valuation on 31/03/2005 is Rs. 68 per thousand. What is the amount of claim payable under the policy?

- A) Rs 407000
- B) Rs 411000
- C) Rs 415000

- D) Rs 354600
- E) Rs 357600

QUESTION 46 - Which of the following life insurance policy, an individual should consider for an estate creation

- A) Endowment policy
- B) Money back policy
- C) Pension policy
- D) Any one of the above
- E) Whole life policy

QUESTION 47 - Deferred Annuity means _____.

- A) purchase price is paid in a single installment
- B) None
- C) purchase price is paid in regular installments spread through the period of deferment
- D) All
- E) annuity payments begin at the end of a selected term

QUESTION 48 - Which of the following statement/s are true with regard to Auto insurance?

1. Sum insured in auto insurance is called as Insured declared value
2. Damage to/ by a person driving the vehicle under the influence of drugs or liquor is not covered.
3. Own damage covers loss or damage to vehicle.
4. The third party liability as per Act is Rs 6000.

- A) 1, 2, & 3 correct

- B) 1, & 3 correct
- C) 2, & 4 correct
- D) 4 only correct
- E) All correct

QUESTION 49 - Life Insurance Company ABC Ltd entered into a reinsurance arrangement with life insurance company XYZ Ltd. On accepting a proposal for Rs 500,000/- life cover, ABC Ltd transfers Rs 100,000 to XYZ Ltd. The above transaction indicates that:

- A) XYZ Ltd. is the ceding company with retention of Rs 100,000/-.
- B) ABC Ltd. is the ceding company with retention of Rs 400,000/-.
- C) XYZ Ltd. is the reinsurance company with retention of Rs 100,000/-.
- D) ABC Ltd. is the reinsurance company with retention of Rs 400,000/-.
- E) None

QUESTION 50 - Ram needs to decide on taking insurance of his property against fire and other perils. This decision should depend on _____.

- A) age of the property
- B) I am not attempting
- C) his ability to pay premium
- D) the prevalent standard practice
- E) his inability to afford financial consequences of self-insurance

Name: _____

Circle the correct option or options for each question.

- | | | | |
|-----|-----------|-----|-----------|
| 1. | A B C D E | 27. | A B C D E |
| 2. | A B C D E | 28. | A B C D E |
| 3. | A B C D E | 29. | A B C D E |
| 4. | A B C D E | 30. | A B C D E |
| 5. | A B C D E | 31. | A B C D E |
| 6. | A B C D E | 32. | A B C D E |
| 7. | A B C D E | 33. | A B C D E |
| 8. | A B C D E | 34. | A B C D E |
| 9. | A B C D E | 35. | A B C D E |
| 10. | A B C D E | 36. | A B C D E |
| 11. | A B C D E | 37. | A B C D E |
| 12. | A B C D E | 38. | A B C D E |
| 13. | A B C D E | 39. | A B C D E |
| 14. | A B C D E | 40. | A B C D E |
| 15. | A B C D E | 41. | A B C D E |
| 16. | A B C D E | 42. | A B C D E |
| 17. | A B C D E | 43. | A B C D E |
| 18. | A B C D E | 44. | A B C D E |
| 19. | A B C D E | 45. | A B C D E |
| 20. | A B C D E | 46. | A B C D E |
| 21. | A B C D E | 47. | A B C D E |
| 22. | A B C D E | 48. | A B C D E |
| 23. | A B C D E | 49. | A B C D E |
| 24. | A B C D E | 50. | A B C D E |
| 25. | A B C D E | | |
| 26. | A B C D E | | |

Instructions

- a. This practice paper is basically meant for the students who will be appearing for the Risk management and insurance planning module.
- b. To know the answers, please fill the enquire form at

<http://www.mandarfin.com/contact.htm>