

## Ch 4

### Analysis of Insurance Contracts

#### QUESTION one ( Multiple choice)

- 1- The portion of a property and liability insurance contract that contains information about the property or activity to be insured is called the
- a) declarations
  - b) insuring agreement
  - c) exclusions
  - d) conditions

Answer

- 2- What information is contained in insuring agreement of an insurance policy?
- a) The name of insured
  - b) A summary of the major promises of the insurer
  - c) A summary of the obligations of the insured
  - d) A list of property , losses and perils that are excluded

Answer

- 3- Which of the following statements about "all-risks" coverage is (are) true?
- I- All losses are covered except those losses specifically excluded
  - II- The burden of proof is on the insured to prove that a loss is covered
- a) I only    b) II only    c) Both I and II    d) Neither I nor II

Answer

- 4- The exclusion of flood in a homeowners policy is an example of an
- a) Excluded loss
  - b) Excluded condition
  - c) Excluded property
  - d) Excluded peril

Answer

5- Exclusions are used in insurance policies for all the following reasons except

- a) To reduce moral hazard
- b) To waive policy conditions
- c) To eliminate coverage for uninsurable perils
- d) To eliminate coverage not needed by typical insureds

Answer

6- Reasons why a peril may be considered uninsurable and therefore excluded from insurance contracts include which of the following?

I- The losses from the occurrence of the peril may be due to a predictable decline in value

II - The losses from the occurrence of the peril may be incalculable and catastrophic.

- a) I only      b) II only      c) Both I and II      d) Neither I nor II

Answer

7- The policy provision requiring the filing of proof of loss with the insurer is an example of a(n)

- a) declarations
- b) policy condition
- c) insuring agreement
- d) miscellaneous provision

Answer

8- Which of the following statements about the definition of the insured is(are) true?

I- Under some circumstances , a person who is not specifically named may be classified as an insured

II- Under no circumstances can more than one person be named as an insured

- a) I only      b) II only      c) Both I and II      d) Neither I nor II

Answer

- 9- All of the following statements about endorsements and riders are true except
- a) They are usually written
  - b) They can be used to add or delete policy provisions
  - c) They normally take precedence over other conflicting policy provisions
  - d) They are primarily used to circumvent the purpose of legislation requiring specific policy provisions

Answer

- 10- Deductibles are used in all of the following types of insurance except
- a) Life insurance
  - b) Health insurance
  - c) Property insurance
  - d) Automobile insurance

Answer

- 11- All of the following are purposes of deductibles except
- a) To eliminate small claims
  - b) To reduce premiums
  - c) To reduce morale hazard
  - d) To exclude uninsurable perils

Answer

- 12- The deductible for automobile collision losses is an example of a(n)
- a) Corridor deductible
  - b) Elimination period
  - c) Straight deductible
  - d) Aggregate deductible

Answer

- 13- Which of the following statements about a calendar- year deductible is (are) true?

I- It requires the insured to pay specified amount of each claim regardless of when the claim occurs during the year and regardless of any previous claims during year

I- It is used only in policies that cover direct property losses

- a) I only      b) II only      c) Both I and II      d) Neither I nor II

Answer

14- A provision in a disability income insurance contract that requires a person to be disabled 90 days before receiving benefits is an example of a(n)

- a) Corridor deductible  
b) Exclusion period  
c) Elimination period  
d) Probability period

Answer

15- At what point in time must an insured meet the coinsurance percentage requirement in property insurance policy in order to avoid becoming a coinsurer?

- a) Only at the time of loss  
b) Only at the time of policy inception  
c) Only at the time of policy application  
d) Both at the time of policy inception and at the time of loss

Answer

16 - Osman owns a commercial building with a replacement cost of \$4 million. The building is insured on a replacement cost basis for \$3 million under a fire insurance policy that has an 80 percent coinsurance clause. How much will Osman collect if the building sustains a covered fire loss with a replacement cost of \$320000?

- a) \$266667   b)\$275000   c) 300000   d) 320000

Answer

17-The primary purpose of coinsurance in property insurance is to

- a) Reduce moral hazard  
b) Achieve equity in rating  
c) Minimize problems in settling claims

d) Eliminate small losses

Answer

18- Which of the following statements about problems arising from the use of a coinsurance clause is (are) true?

- I- The amount of insurance should be periodically evaluated to avoid a coinsurance penalty because of inflation
  - II- An agreed value coverage option is one method used to solve the problem of values that fluctuate throughout the policy term
- a) I only    b) II only    c) Both I and II    d) Neither I nor II

Answer

19- Suzan has a major medical policy with a \$200 deductible and a 75-25 coinsurance (percentage participation) clause. If she has eligible medical expenses of \$10000, how much will be paid by her insurer?

- a) \$ 7300   b) \$ 7350   c) \$ 7500   d) \$ 9800

Answer

20- Purposes of the coinsurance (percentage participation) clause in health insurance contracts include which of the following?

- I- To reduce premiums
  - II- To exclude coverage for certain medical procedures
- a) I only    b) II only    c) Both I and II    d) Neither I nor II

Answer

21- The purpose of other insurance provisions is to

- a) Eliminate the need for deductibles
- b) Penalize those insureds who carry inadequate amount of insurance
- c) Specify who will pay losses if the insurer is bankrupt
- d) Preserve the principle of indemnity

Answer

22- Abeer has three fire insurance policies on her office building. The policy from company A is for \$400,000 and the policies from companies B AND C are

for \$ 100,000 each. If Abeer has a \$360,000 loss , how much of the loss will be covered by each policy if the policies have pro rata liability clauses?

- a) Each policy : \$120,000
- b) POLICY A : \$160,000 ; POLICY B and C : \$100,000 each
- c) POLICY A : \$240,000 ; POLICY B and C : \$60,000 each
- d) POLICY A : \$360,000 ; POLICY B and C : nothing

Answer

23- Hasan has 3 liabilities policies that provide for contribution by equal shares in case other insurance applies to a loss. How much will each policy pay for a \$3,000,000 liability judgement if policy A provides \$500,000 of coverage, policy B provides \$1000,000 of coverage, and policy C provides \$3,000,000 of coverage?

- A) each policy will pay \$500.000 ,and Hasan must assume the remaining \$1,500,000
- B) policy A will pay \$500,000 and policy B and C will pay each \$1000,000 and Hasan must assume the remaining \$500,000
- C) policy A will pay nothing, policy B will pay \$1000,000 , and policy C will pay \$2,000,000
- D) policy A will pay \$500,000 , policy B will pay \$1000,000 and policy will pay \$1,500,000

Answer

24- Helen and John own automobiles on which they carry liability insurance. If Helen has an accident while driving John's car, how will each insurer respond to any liability judgment against Helen

- a) the insurers will pay the judgement on a pro rata basis
- b) John's insurer will pay on an excess basis if Helen's insurance is insufficient to cover the judgment
- c) Helen's insurance will pay on an excess basis if John's insurance is insufficient to cover the judgment
- d) The policies will pay the judgement on the basis of contribution by equal shares

Answer

25- Mohamed's property was damaged in an accident. He phoned his agent to see if the loss was covered under his property insurance policy. The agent said "as long as the loss is not specifically excluded in the policy, the loss is covered". Based on the agent's answer, what type of insuring agreement appears in the policy?

- a) Unconditional coverage
- b) Named-perils-only coverage
- c) Listed perils-only coverage
- d) All-risks coverage

Answer

26- Aya hit a wall in a parking garage causing a large dent in the right front fender of her car. She was busy at work and delayed reporting the damage to her insurer for nine months. The insurer denied the claim, stating "although such a loss is usually covered, you are required under terms of the contract to provide prompt notification in case of loss" The prompt notification requirement is an example of a (n)

- a) Declaration
- b) Definition
- c) Insuring agreement
- d) Condition

Answer

27- Mark reviewed his homeowner's policy. He learned that his personal property was insured on an actual cash value basis. He would like replacement cost coverage on the property. He contacted his agent who said "I will simply add amendment to your contract that changes the basis of recovery to replacement cost " The written provision the agent was referring to is called a(n)

- a) Endorsement
- b) Coinsurance clause
- c) binder
- d) deductible

Answer

28- Under the terms of Setaam 's auto insurance policy .he must pay the first \$500 of any physical damage loss to his vehicle before his insurer will pay anything. What type of deductible is included in Setaam 's auto insurance policy?

- a) Calendar-year deductible
- b) Corridor deductible
- c) Straight deductible
- d) aggregate deductible

Answer

29- Eman hurt her back and was unable to work. She filed a claim under her disability income insurance policy. Under terms of the policy, 60 days must pass between the date of the injury and when the insurer begins to replace lost work earnings. This 60-day period is called a (n)

- a) grace period
- b) enrollment period
- c) probationary period
- d) elimination (waiting ) period

Answer

30- ABC company insured its building on a replacement cost basis for \$700,000 under a property insurance policy that included an 80 percent coinsurance clause. The building had a replacement cost of \$ 1 million when it sustained a \$40,000 loss. How much will ABC Company receive from its insurer, assuming no deductible applies?

- a) \$33,333
- b) \$35,000
- c) \$36,000
- d) \$40,000

Answer

31- XYZ company insured its building on a replacement cost basis for \$450,000 under a property insurance policy that included an 80 percent coinsurance clause. The building had a replacement cost of \$ 500,000 loss . How much will XYZ Company receive from its insurer, assuming no deductible applies?

- a) \$42,000
- b) \$45,000
- c) \$50,000
- d) \$56,250

Answer

32- Laura's major medical insurance policy includes a \$500 deductible and an 80- 20 coinsurance clause. She was hospitalized and her covered medical expenses were \$10,500. How much of the \$10,500 will be paid by the insurer under Laura's major medical insurance policy?

- a) \$7,500
- b) \$7,900
- c) \$8,000
- d) \$10,000

Answer

33- Abdel Kareem purchased liability insurance with a \$100,000 limit from insurer A. when insurer A denied a claim that Abdel Kareem thought should be covered ,he bought a second liability insurance policy with \$150,000 limit from insurer B. before he cancelled the policy with insurer A, a \$60,000 loss occurred. If this loss is settled on a pro rata basis, how much must each insurer pay?

- a) Insurer A will pay \$ 10,000 and insurer B will pay \$ 50,000
- b) Insurer A will pay \$ 20,000 and insurer B will pay \$ 40,000
- c) Insurer A will pay \$ 24,000 and insurer B will pay \$ 36,000
- d) Insurer A will pay \$ 40,000 and insurer B will pay \$ 20,000

Answer

34- Kyle borrowed Jane's car. Kyle has auto liability insurance with a \$100,000 limit. Jane has auto liability insurance with a \$50,000 limit. Kyle caused accident while driving Jane's car. The resulting damages awarded to the person injured in the accident were \$75,000. Assuming Jane's coverage is primary and Kyle's coverage is excess, how will this claim be settled?

- a) Jane's insurer will pay \$50,000 and Kyle's insurer will pay \$25,000
- b) Jane's insurer will pay \$37,000 and Kyle's insurer will pay \$37,000
- c) Jane's insurer will pay \$25,000 and Kyle's insurer will pay \$50,000
- d) Jane's insurer will pay nothing and Kyle's insurer will pay \$75,000

Answer

35- Endorsements and riders

- a) Are two terms with the same meaning
- b) Are used frequently with life insurance contracts
- c) Always require additional premium
- d) Have no effect on the insurance policy
- e) None of the above

Answer

36- Insurers typically do not provide coverage for loss due to wear and tear because:-

- a) The loss is not fortuitous
- b) The loss may be catastrophic
- c) Predictability may be Very difficult
- d) The coverage would not be indemnification
- e) None of the above

Answer

37- Which part of the policy provides the insurer's promise?

- a) Insuring agreement
- b) Declaration page
- c) Promissory note

- d) Exclusions
- e) Conclusions

Answer

## **QUESTION Two**

### **TRUE FALSE QUESTIONS**

1- A binder is the place where the agent files his copy of the insurance agreement

Answer

2- A legal contract of insurance cannot be written without a signed application

Answer

3- A binding receipt is the receipt issued for a binder

Answer

4- Exclusions may reduce the cost of insurance for the insured

Answer

5- In the case of fire insurance ,suspension of coverage is the same as cancellation and may be effectuated under the same circumstances

Answer

6- It is impossible to determine what protection is provided by an insurance policy without examining the exceptions and exclusions

Answer

7- To maintain coverage ,the insured's only responsibility is to pay premium

Answer

8- It is impossible to buy a policy which insures against all risks

Answer

9- Damage to the insured premises caused by fire fighters in the process of extinguishing a fire will be paid for under the fire insurance policy even though such a source of loss is not mentioned in the policy

Answer

10- Although a form is not the same thing as a policy ,an endorsement is the same as rider

Answer

**QUESTION THREE (DEFINITIONS)**

***DEFINE THE FOLLOWING:-***

- 1- Insurance contract( policy )
- 2- The parties of insurance contract
- 3- What is the meaning of Coinsurance?
- 4- Explain coinsurance by example
- 5- The contents of insurance contract
- 6- Exclusions of insurance contract
- 7- Difference between Endorsements and Riders
- 8- The purpose of a deductible in insurance contract
- 9- Difference between Coinsurance and insurance
- 10- The purpose of coinsurance
- 11- The purposes of coinsurance in health insurance

**QUESTION FOUR**

***Fill in***

- 1- Insurance contract is -----
- 2- Insurance contract consists of -----,-----,-----,-----,-----
- 3- The requirements of insurance contract are -----,-----
- 4- Exclusions of insurance contract are -----
- 5- Endorsements is used in ----- but Riders is -----
- 6- The deductible in insurance contract is used in -----
- 7- Coinsurance is-----
- 8--The general requirements of insurance contract are-----,---,-----,---,---
- 9- Endorsement is used in----- ,but Rider is used in -----

10- If the aggregate deductible in the policy \$10,000 , and the losses are \$1000 and \$2000 over the policy year ,the insurer will pay ----- ,but if there is a third loss \$8000 over the policy year ,the insurer will pay-----.

11- A building its value \$1,000,000 and the owner has insured it for only \$600,000 . If 80% coinsurance clause is present in the policy. So, the required amount of insurance based on actual cash value will equals ----- . If a \$100,000 loss occurs, the amount of recovery will equal -----only because the coinsurance requirement is not met. Consequently, the insured must charge ----- of the loss.

### **QUESTION Five**

#### **First Applied Case**

- a) A manufacturing firm incurred the following insured losses ,in other given, during the current policy year

Loss	Amount of loss
A	&2500
B	3500
	10,000

How much would be company's insurer pay for each loss if the policy contained the following type of deductible?

- 1- \$1000 straight deductible
  - 2- \$15000 annual aggregate deductible
- b) Explain the coordination of benefits provision that is typically found in the group medical expense plans.

### **Solution**

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#### **Second Applied Case**

Assume that a \$300,000 liability claim is converted under two liability insurance contracts. Policy A has a \$500,000 limit of liability for the claim ,while policy B has a \$125,000limit of liability. Both contracts provide for contribution by equal shares .

How much will each insurer contribute toward this claim? Explain your answer

If the claim were only \$50,000 , how much would each insurer pay?



