

Questions and discussions

QUESTION ONE **(Multiple Choice)**

- 1- Insurance authors have traditionally defined risk as
- A) Any situation in which the probability of loss is one
 - B) Any situation in which the probability of loss is zero
 - C) Uncertainty concerning the occurrence of loss
 - D) the probability of a loss is occurring

Answer

- 2- Objective risk is defined as
- A) the probability of loss
 - B) The relative variation of actual loss from expected loss
 - C) Uncertainty based on a person's mental condition or state of mind
 - D) The cause of loss

Answer

- 3- An insurance company estimates its objective risk for 5000 exposures at 20 percent. Assuming the probability of loss remains the same ,what happen to the objective risk if the number of exposures were to increase 50000?
- a) It would decrease to 2 percent
 - b) It would decrease to 10 percent
 - c) It would remain the same
 - d) It would increase to 22 percent

Answer

- 4) Uncertainty based on a person's mental condition or state of mind is known as
- a) Objective risk
 - b) Subjective risk
 - c) Objective probability
 - d) Subjective probability

Answer

- 5-An individual's personal estimate of the chance of loss is
- a) An objective probability
 - b) An objective risk

- c) A subjective probability
- d) An a priori probability

Answer

6- A peril is

- a) A moral hazard
- b) The cause of a loss
- c) A condition that increases the chance of a loss
- d) The probability that a loss will occur

Answer

7- An earthquake is an example of a

- a) Moral hazard
- b) Peril
- c) Physical hazard
- d) Objective risk

Answer

8- Dense fog that increase the chance of an automobile accident is an example of

- a) Speculative risk
- b) Peril
- c) Physical hazard
- d) Moral hazard

Answer

9- Faking an accident to collect insurance proceeds is an example of a

- a) Physical hazard
- b) Objective risk
- c) Moral hazard
- d) Morale hazard

Answer

9- Indifference to loss because of the existence of insurance of insurance is an example of a

- a) Physical hazard
- b) Objective probability
- c) Moral hazard
- d) Morale hazard

Answer

10- A pure risk is defined as a situation in which there is

- a) Only the possibility of loss or no loss
- b) Only the possibility of profit
- c) a possibility of neither profit nor loss
- d) a possibility of either profit or loss

Answer

11- The premature death of an individual is an example of a

- a) pure risk
- b) speculative risk
- c) fundamental risk
- d) physical risk

Answer

12- Which of the following statements about speculative risks is true?

- a) They are almost always insurable by private insurers.
- b) They are more easily predictable than pure risks
- c) Their occurrence may benefit society
- d) They involve only a chance of loss

Answer

13- An automobile that could be totaled in a collision is an example of which of the following types of risk?

I -Speculative risk

II -Fundamental risk

- a) I only b) II only c) both I and II d) neither I nor II

Answer

14- All of the following are examples of personal risks except

- a) Poor risks
- b) Unemployment
- c) Premature death
- d) Flood

Answer

15- Which of the following is reason why premature death may result in economic insecurity?

I- Additional expenses associated with death may be incurred

II- The income of the deceased person's family may be inadequate to meet its basic needs

- a) I only b) II only c) both I and II d) neither I nor II

Answer

16- Which of the following are often consequences of long term disability?

- i- MEDICAL EXPENCES
 - ii- Loss or reduction of employee benefits
- a- I only b) II only c) both I and II d) neither I nor II

Answer

17- All of the following are examples of direct property losses except

- a) The theft of a person's jewelry
- b) The destruction of a firm's manufacturing plant by an Earthquake
- c) The extra expenses incurred by a person to rent a substitute vehicle while a collision damaged car is being repaired.
- d) The vandalism of a person's automobile

Answer

18- The extra expenses incurred by a business to stay in operation following a fire is an example of a(n)

- a) Fundamental risk
- b) Speculative risk
- c) Direct loss
- d) Indirect loss

Answer

19- Which of the following statements about liability risks is (are) true?

- I- Future income and assets can be attached to pay judgments if inadequate insurance is carried
 - II- There is an upper limit on the amount of loss
- a- I only b) II only c) both I and II d) neither I nor II

Answer

20- All of the following are burdens to society because of the presence of risk except

- a) The size of an emergency fund must be increased
- b) Insurance is unavailable ,particularly for pure risks
- c) Society is deprived of certain goods and services
- d) Mental fear and worry are present

Answer

21- Loss control includes which of the following?

- I – loss reduction II- loss prevention

a- I only b) II only c) both I and II d) neither I nor II

Answer

22- Following good health habits can be categorized as

- a) Loss prevention
- b) Loss retention
- c) Noninsurance transfer
- d) Personal insurance

Answer

23- For the insured the use of deductible in insurance contracts is an example of

- a) Risk transfer
- b) Loss control
- c) Risk avoidance
- d) Risk retention

Answer

24- the use of fire-resistance materials when constructing a building is an example of

- a) Risk transfer
- b) Loss control
- c) Risk avoidance
- d) Risk retention

Answer

25- All of the following statements about retention are true except

- A) it may be used deliberately if commercial insurance is unavailable
- B) it may be used passively because of ignorance
- C) its use is most appropriate for low- frequency , high –severity types of risks
- D) its use results in cost savings if losses are less than the cost of insurance

Answer

26- All of the following are methods of noninsurance transfer except

- A) entering into hold-harmless agreements
- B) avoiding dangerous activities
- C) selling stock index futures
- D) incorporating a business

Answer

27- Osama borrowed money from al Raghey bank to purchase a fishing boat. He purchased insurance on the boat. Osama because of the fish prices were low and he did not catch many fish, he had difficulty to pay loan . osama intentionally sun boat,collected from his insurer and paid off the loan balance . This scenario illustrates the problem of

- a) adverse selection
- b) moral hazard
- c) fundamental risk
- d) morale hazard

Answer

28- ABC insurance company plans to sell homeowners insurance in Riyadh . ABC expect that 8 homeowners out of every 100 , on average ,will report claims each year . the variation between the rate of loss that ABC expects to occur and the rate of loss that actually does occur is called

- a) objective probability
- b) subjective probability
- c) objective risk
- d) subjective risk

Answer

29- Al RAGHY Company installed smoke detectors , a sprinkler system ,and fire extinguishers in its new manufacturing facility. These devices are all examples of

- a) loss control
- b) noninsurance transefer
- c) risk avoidance
- d) risk retention

Answer

30- Faisal and Tamer started a dry cleaning business. The business may be successful or it may fail. The type of risk that is present when either a profit or loss could occur is called

- A) PURE RISK
- B) subjective risk
- C) fundamental risk
- D) speculative risk

Answer

31- Mandatory driver education training by trucking firm is an example of

- a) risk avoidance
- b) loss prevention
- c) risk transfer
- d) avoidance
- e) None of above

Answer

32- Maradona (a famous football star) has insurance on his house and belongings inside the house. As a result , he never feels the need to lock the front door . Maradona's action is called

- a) Adverse selection
- b) Moral hazard
- c) Morale hazard
- d) Fortuitous
- e) None of the above

Answer

33- using your seatbelt at all times while driving is an example of

- A) risk avoidance
- B) Loss prevention
- C) Risk transfer
- D) Loss reduction
- E) None of the above

Answer

34- Risk retention occurs when:

- a) You use a medication and are unaware of its possible side effects
- b) You live in a flood plain and carry no flood insurance
- c) Your \$75000 house is covered by \$50000 worth of property insurance
- d) You decide not to purchase collision coverage for your 15-year old car
- e) all of the above

Answer

QUESTION TWO (TRUE False)

- 1- A hazard is anything that is likely to cause a loss , such as a fire , a wind storm or an earthquake
- 2- Fundamental risks are usually considered to be an individual's own responsibility and are most appropriately dealt with through loss prevention measures
- 3- speculative risks are usually accepted voluntarily because of their two-dimensional nature

- 4- Although virtually all speculative risks can be avoided, it is impossible to avoid all pure risks
- 5- The term "Pure risk " describes a situation in which there is no chance of gain , but the possibility of loss or no loss only
- 6- The term "Pure risk " refers to those situations in which loss is certain, such for example depreciation
- 7- From the prospective of society , the most attractive approach to dealing with risks is risk avoidance
- 8- The concept of "expected value "relates the magnitude of a risk to the frequency of loss and severity of loss that might occur .
- 9- Loss prevention and reduction efforts are directed toward reducing both frequency and severity
- 10- Peril is a synonym for hazard
- 11- The major of difference between a pure risk and a speculative risk is that the former does not involve the possibility of gain while the latter does

QUESTION THREE (DEFINITIONS)

DEFINE THE FOLLOWING:-

- 1- Avoidance 2- Hazard 3- Insurance 4 - Law of large number 5- Loss control 6- Loss preventions 7- Physical hazard 8- Methods of Handling Risks

QUESTION FOUR

Fill in

- 1- ----- the direct cause of a loss
- 2- ---- is an example of physical hazard:

- 3- -----is a good example of a speculative risk
- 4- -----risk affects the entire economy
- 5- ----- means the risks are kept by individuals or organizations

QUESTION FIVE

Applied Case

There are several techniques available for managing risk. For each of the following risks, identify an appropriate technique, or combinations of techniques ,that would be appropriate for dealing with risk.

- a- A family head may die prematurely because of heart attack.
- b- An individual's home may be destroyed in hurricane.
- c- A new car may be severely damaged in an auto accident.
- d- A negligent motorist may be ordered to pay a substantial liability judgment to someone who is injured in an auto accident.
- e- A surgeon may be sued for medical practice.

Solution

