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Question: 1

In order for an insurance carrier to begin the claims process, the insured must submit what formal statement?

- A. Notice of claim
- B. Proof of loss
- C. Loss statement
- D. No notice is needed to start the claims process

Answer: B

Explanation:

Proof of loss. An insured is obligated as part of the insurance policy to provide the insurance company with a proof of loss. An insurance company cannot begin to investigate the claim for coverage or denial until the proof of loss statement is received.

Question: 2

A standard mortgage clause gives the right to the mortgagee to recover after a loss, despite any neglect on the part of the insured. The mortgagee can only recover, however, if it is in possession of what?

- A. The property
- B. The insurance policy
- C. The mortgage
- D. The title of the land

Answer: C

Explanation:

The mortgage. The mortgagee is entitled to recover from the loss if the policy is considered void due to an act by the insured. The mortgagee is bound by the same conditions and exclusions of an insurance policy, but is seen as a separate interest in the property.

Question: 3

Mary's house was badly damaged by a hurricane. A claims representative from her insurance company came out to inspect the damage and put a value on the loss. What Mary thought the value of her property was, and what the claims representative is stating the value to be, do not match. Mary is extremely upset over this dispute in value and wants another opinion. In accordance with Mary's rights under the insurance policy, she can request what option to get a second opinion on her loss value?

- A. Appraisal
- B. Outside source opinion
- C. Value adjustment
- D. Third-party adjuster

Answer: A

Explanation:

Appraisal. An appraisal is a right given by the insurance policy to ask for a third party's opinion on the value of the loss. This right is practiced when the insured does not agree with the value the insurer is putting on the loss sustained. The insurer cannot deny an appraisal, as it is a right stated in the insurance contract.

Question: 4

The policy that allows an insured to give or promise her insurance policy as collateral for a loan is known as what?

- A. Promissory policy
- B. Policy transfer
- C. Assignment
- D. Collateral policy

Answer: C

Explanation:

Assignment. Assignment is the right given by some insurance policies to give or promise your own policy as a form of collateral to obtain a loan. Assignment is not allowed in all types of policies, but is common in life insurance policies. A lender may require an assignment agreement if the insured's business is dependent on the insured's presence and therefore his death would mean the business could not survive. The end of the business would not allow the loan to be paid back to the insurer, which is where the assignment of the insurance policy would be used to pay the loan.

Question: 5

Lauren sent in an application for a homeowner's policy. She answered each question accurately but failed to mention that her current policy was being non-renewed due to a bite claim from her three-year-old boxer terrier. If Lauren is issued the new policy but the carrier later finds out about her claim history, for what reason could it cancel Lauren's policy?

- A. Misrepresentation
- B. Concealment
- C. Policy invalidation
- D. Lying to licensed agent

Answer: B

Explanation:

Concealment. While Lauren did answer every question on the homeowners application accurately, she failed to mention a claim that is relevant to this type of policy. Any facts that could be used to determine eligibility of a risk must be disclosed at the time of quoting or the insurer may have the right to cancel.

Question: 6

Luke set up a meeting with an agent of ABC Insurance Inc. The purpose of this meeting was for Luke to obtain a personal umbrella policy to cover his personal assets and fulfill a requirement of his homeowners association. The agent went over various coverage forms and limits available to Luke, as well as premiums due. At the end of the meeting, Luke left with some paperwork to review and the agent was going to process a quote for Luke as well in the next day or so. If Luke agreed with the terms, he promised to pay his premium within the week. What one element of a contract is missing from Luke's situation?

- A. Offer and acceptance
- B. Two or more parties working towards an agreement
- C. Consideration
- D. Legal purpose

Answer: A

Explanation:

Offer and acceptance. Elements of an insurance contract include two or more parties in agreement, legal purpose, offer and acceptance, and consideration. Luke's legal purpose in obtaining his umbrella policy was to fulfill a requirement of his homeowners association. The agent and Luke are the two parties who are working towards an agreement and contract of insurance coverage. The element of consideration is the exchange of money for the premium from Luke for the coverage the insurance company is going to provide. The fourth element of a contract - offer and acceptance - is not yet met because Luke has not yet agreed to final terms to issue the policy or contract.

Question: 7

Abby sent in an application for a homeowner's policy. She answered every question, but when asked if she had a previous claim history, she marked "no." Abby in fact was just non-renewed by her previous carrier for pipes bursting due to failure to maintain the heat. After the policy is issued, Abby's carrier learns of the past claim and cancels due to what reason?

- A. Lying to a licensed agent
- B. Concealment
- C. Policy invalidation
- D. Misrepresentation

Answer: D

Explanation:

Misrepresentation. Abby did not answer each question on her insurance application truthfully. When an insurer learns the insured has misrepresented her risk the insurer has the right to cancel. The insurer has the right to cancel because had it known about the previous claim: it may have never written Abby's policy.

Question: 8

Affirmative and promissory are two types of warranties. A warranty is the promise made by what party of the insurance contract?

- A. The insurer
- B. The agent representing the insurer
- C. The insured
- D. Both the insured and the agent

Answer: C

Explanation:

The insured. The insured is promising, or making a warranty, that all facts presented to the insurer are accurate and honest. The insurer is relying on this warranty when it makes the decision to underwrite this risk. A warranty is generally required on information that could be a deciding factor to accept the risk — as in a past claims history or not listing members of the household with poor driving records.

Question: 9

In 1970, this act was created to promote an accurate and fair process for collecting and using consumer credit reports. What is the formal name for this federal act?

- A. Fair Credit Reporting Act
- B. Federal Agency Reporting Act
- C. Federal Credit Care Act
- D. Fair Federal Care Act

Answer: A

Explanation:

Fair Credit Reporting Act. The Fair Credit Reporting Act is a federal act that was enacted in 1970. This act defines the legal procedures and standards for using consumer reports, specifically credit reports. The report allows customer to opt out of the sharing of her information between affiliates of the organization pulling the credit information.

Question: 10

Applications, inspections, credit reports, motor vehicle reports, etc., all make up different sources of what?

- A. Producer information
- B. Agent files
- C. Sources of underwriting information
- D. Client services

Answer: C

Explanation:

Sources of underwriting information. Applications, inspections, credit reports, and motor vehicle reports all make up informational sources that can help under write a risk. An under writer sometimes needs multiple sources of information in order to make an informed decision to write an account. An example would be the personal umbrella product. To write a personal umbrella, insurers will need to review the application for all exposures noted as well as motor vehicle reports to review the insured's driving history. The underwriter may also order an inspection of the location to be covered.

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