



ATHENA FINANCIAL
& INSURANCE ASSOCIATES



Life & Health Pre-Licensing **PREP REVIEW**

*based on XCEL's study materials to support
licensing exam preparation.*

GENERAL INSURANCE

1. What is considered to be the primary reason for buying life insurance?

Correct Answer: *The primary reason for purchasing life insurance is to provide death benefits.*

2. Which of the following is NOT considered advertising?

Correct Answer: *"A rating from a rating service company, such as A.M. Best". An A.M. Best company rating is not considered advertising.*

3. A life insurance company has transferred some of its risk to another insurer. The insurer assuming the risk is called the

Correct Answer: *"reinsurer". When risk is transferred from one insurer to another, the insurer assuming the risk is called the reinsurer.*

4. A type of insurer that is owned by its policyowners is called

Correct Answer: *"mutual". A mutual insurer is owned by its policyowners.*

5. ABC Insurance Company transfers part of their risk to XYZ Insurance Company. This situation is called

Correct Answer: *"reinsurance". Reinsurance is a situation in which an insurer transfers part of their risk to another insurer.*

6. An insurer's ability to make unpredictable payouts to policyowners is called

Correct Answer: *Liquidity indicates a company's ability to make unpredictable payouts to policyowners.*

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4. What kind of life insurance policy issued by a mutual insurer provides a return of divisible surplus?

Correct Answer: *"participating life insurance policy". A mutual insurer issues life insurance policies that provide a return of divisible surplus.*

5. A nonparticipating policy will

Correct Answer: *"not pay dividends". When an insurer offers a policy that is nonparticipating, the insurer's policy does not pay dividends.*

6. A(n) _____ company is owned by its shareholders.

Correct Answer: *"stock". A stock insurance company is owned by its shareholders.*

7. Fraternal Benefit Society has each of the following characteristics EXCEPT

Correct Answer: *"Exist For profit". Fraternal Benefit Societies are not-for-profit entities which exist for the benefit of its members.*

8. Karen is a producer who has obtained personal information about a client without having a legitimate reason to do so. Under the McCarran-Ferguson Act, what is the minimum penalty for this?

Correct Answer: *A fine of \$10,000 or up to one year in jail is the penalty for any person who obtains information about a client without having a legitimate reason to receive it.*

9. In an insurance contract, the element that shows each party is giving something of value is called

Correct Answer: *"consideration". Consideration is the element of an insurance contract which demonstrates that each party is giving something of value.*

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10. Ken is a producer who has obtained Consumer Information Reports under false pretenses. Under the Fair Credit Reporting Act, what is the maximum penalty that may be imposed on Ken?

Correct Answer: *Under the Fair Credit Reporting Act, the maximum penalty for a producer who obtains Consumer Information Reports under false pretenses is \$5,000 and 1 year imprisonment.*

11. The Do Not Call Registry offers exemptions for calls placed from all of the following EXCEPT

Correct Answer: *"insurance sales calls". All of these types of calls are exempt from the Do Not Call Registry EXCEPT insurance sales calls.*

12. Legal purpose is a term used in contract law meaning

Correct Answer: *In contract law, legal purpose refers to the fact that the reasons for entering into a contract must be legal.*

13. The Fair Credit and Reporting Act's main purpose is to

Correct Answer: *The primary purpose of the Fair Credit and Reporting Act is to protect consumers with guidelines regarding credit reporting and distribution.*

14. The authority granted to a licensed producer is provided via the

Correct Answer: *According to the Law of Agency, the producer/agent represents the principal/insurer and is granted actual, implied and apparent authority to act on behalf of the insurer. The Law of Agency makes the principal responsible for these acts of the agent.*

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15. The power given to an individual producer that is not specifically addressed in his/her contract is considered what type of authority?

Correct Answer: *Implied authority is the unwritten authority that is not expressly granted, but which the agent is assumed to have in order to transact the business of the principal.*

16. What is the primary purpose of a rating service company such as A.M Best?

Correct Answer: *The primary purpose of a rating service company is to determine the financial strength of the company being rated.*

17. The term which describes the fact that both parties of a contract may NOT receive the same value is referred to as

Correct Answer: *"Aleatory". Aleatory is a term that describes the fact that both parties of a contract may NOT receive the same value.*

18. A nonparticipating company is sometimes called a(n)

Correct Answer: *"stock insurer". A stock insurer is referred to as a nonparticipating company because policyholders do not participate in dividends resulting from stock ownership.*

19. Under a contract of adhesion,

Correct Answer: *Under a contract of adhesion, the contract has been prepared by one party (the insurance company) with no negotiation between the applicant and insurer. In effect, the applicant "adheres" to the terms of the contract on a "take it or leave it" basis when accepted.*

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20. What are an applicant's statements concerning occupation, hobbies, and personal health history regarded as?

Correct Answer: *Statements by an applicant concerning personal health history, family health history, occupation, and hobbies are referred to as representations.*

21. A plan in which an employer pays insurance benefits from a fund derived from the employer's current revenues is called

Correct Answer: *"A self-funded plan". This is an example of a self-funded plan.*

22. What makes an insurance policy a unilateral contract?

Correct Answer: *"Only the insurer is legally bound". Insurance contracts are unilateral, meaning that only the insurer makes legally enforceable promises in the contract.*

23. An insurer's claim settlement practices are regulated by the

Correct Answer: *"State insurance departments". Claim settlement practices of insurers are regulated by State insurance departments.*

24. Which of the following is present when an applicant stands to lose value if the insured dies?

Correct Answer: *"Insurable interest". Insurable interest means that the person acquiring the contract (the applicant) must be subject to loss upon the death, illness, or disability of the person being insured.*

25. Why are dividends from a mutual insurer not subject to taxation?

Correct Answer: *"Because dividends are considered to be a return of premium". Dividends are not subject to taxation because paying dividends is equivalent to returning a premium.*

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26. Who is responsible for assembling the policy forms for insureds?

Correct Answer: "Insurance carriers". The insurance carrier has become responsible for assembling the policy forms for the insured person(s).

27. _____ is NOT an element of a valid contract.

Correct Answer: "Countersignature". A countersignature is not an element of a valid contract.

28. Bob and Tom start a business. Since each partner contributes an important element to the success of the business, they decide to take life insurance policies out on each other, and name each other as beneficiaries. Eventually, they retire and dissolve the business. Bob dies 12 months later. The policies continue in force with no change. Both partners are still married at the time of Bob's death. In this situation, who will receive Bob's policy proceeds?

Correct Answer: "Tom". Insurable interest only has to exist at the time of the application, not at the time of the claim. Being there was no change in beneficiary prior to Bob's death, Tom will still receive the policy proceeds.

29. In an insurance contract, the insurer is the only party legally obligated to perform. Because of this, an insurance contract is considered

Correct Answer: "unilateral". A contract in which only the insurer would be legally obligated to perform is considered unilateral.

30. Ambiguities in an insurance policy are always resolved in favor of the

Correct Answer: "insured". Ambiguities in an insurance policy are always resolved in favor of the insured.

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31. In order for a contract to be valid, it must

Correct Answer: *"contain an offer and acceptance". For a contract to be valid it MUST include an offer and an acceptance.*

32. When the principal gives the agent authority in writing, it's referred to as

Correct Answer: *Express authority is given when the principal gives the agent authority in writing.*

33. Insurable interest does NOT occur in which of the following relationships?

Correct Answer: *There would not be insurable interest between a business owner and its customer.*

34. Which of the following best describes a conditional insurance contract?

Correct Answer: *An insurance contract is conditional. This means that the insurer's promise to pay benefits depends on the occurrence of an event covered by the contract.*

35. Which contract element is insurable interest a component of?

Correct Answer: *"Legal purpose". Insurable interest is a component of legal purpose.*

36. A professional liability for which producers can be sued for mistakes of putting a policy into effect is called

Correct Answer: *"Errors and Omissions". Errors and omissions is a professional liability for which producers can be sued for mistakes of putting a policy into effect.*

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37. According to life insurance contract law, insurable interest exists

Correct Answer: "at the time of application". According to life insurance in contract law, a person most likely will have an insurable interest in insuring a person's life if at the time of application

38. Intentional withholding of material facts that would affect an insurance policy's validity is called a(n)

Correct Answer: "concealment". Deliberate withholding of material facts that would affect the validity of an insurance policy or a claim under the policy is known as concealment.

39. The deeds and actions of a producer indicate what kind of authority?

Correct Answer: "Apparent". Apparent authority is the appearance or assumption of authority based on the actions, words, or deeds of the producer.

40. What is implied authority defined as?

Correct Answer: Implied authority is defined as the authority that is not specifically granted to an agent in the agency agreement, but that an agent can reasonably assume to accomplish the day-to-day activities of the job.

41. Which of the following is an example of the insured's consideration?

Correct Answer: An example of the insured's consideration is a paid premium.

42. Which type of clause describes the following statement: "We have issued the policy in consideration of the representations in your applications and payment of the first-term premium".

Correct Answer: "Consideration clause". This statement refers to the consideration clause.

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43. According to the principle of Utmost Good Faith, the insured will answer questions on the application to the best of their knowledge and pay the required premium, while the insurer will deal fairly with the insured and it's

Correct Answer: *Without good faith, it would be difficult to reach agreement. Without agreement, there would be no valid contract.*

44. All of the following are elements of an insurance policy EXCEPT

Correct Answer: *"claim forms". Claim forms are not an element of an insurance policy.*

45. In an insurance contract, the applicant's "consideration" is the

Correct Answer: *"statements made in the application and the premium". The statements made in the application and the premium constitute "consideration" for a life or health insurance policy.*

46. All of the following are examples of pure risk EXCEPT

Correct Answer: *"Losing money at a casino". Pure risk is a category of risk in which loss is the only possible outcome, which is the opposite of speculative risk. Gambling is considered a speculative risk where there is a chance of either gain or loss.*

47. How do insurers predict the increase of individual risks?

Correct Answer: *The law of large numbers helps insurance companies predict the increase of individual risks.*

48. Which of the following is considered to be an event or condition that increases the probability of an insured's loss?

Correct Answer: *Hazards are events or conditions that increase the likelihood of an insured's loss.*

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49. What is known as the immediate specific event causing loss and giving rise to risk?

Correct Answer: "Peril". A peril is defined as the immediate specific event causing loss and giving rise to risk. A peril is the cause of a risk. For example, when a building burns, fire is the peril. When a person dies, death is the peril. When an individual is injured in an accident, the accident is the peril. When a person becomes ill from a disease, the disease is the peril.

50. An example of risk sharing would be

Correct Answer: "Doctors pooling their money to cover malpractice exposures". Doctors pooling their money to cover malpractice exposures is an example of risk sharing.

51. An individual who removes the risk of losing money in the stock market by never purchasing stocks is said to be engaging in

Correct Answer: Risk avoidance is a risk management technique that seeks to eliminate any possibility of risk through hazard prevention, or the discontinuation of activities determined to entail any level of risk.

52. Insurance companies determine risk exposure by which of the following?

Correct Answer: All forms of insurance determine exposure through risk pooling and the law of large numbers.

53. Insurance represents the process of risk

Correct Answer: "transference". Insurance involves the transfer of risk.

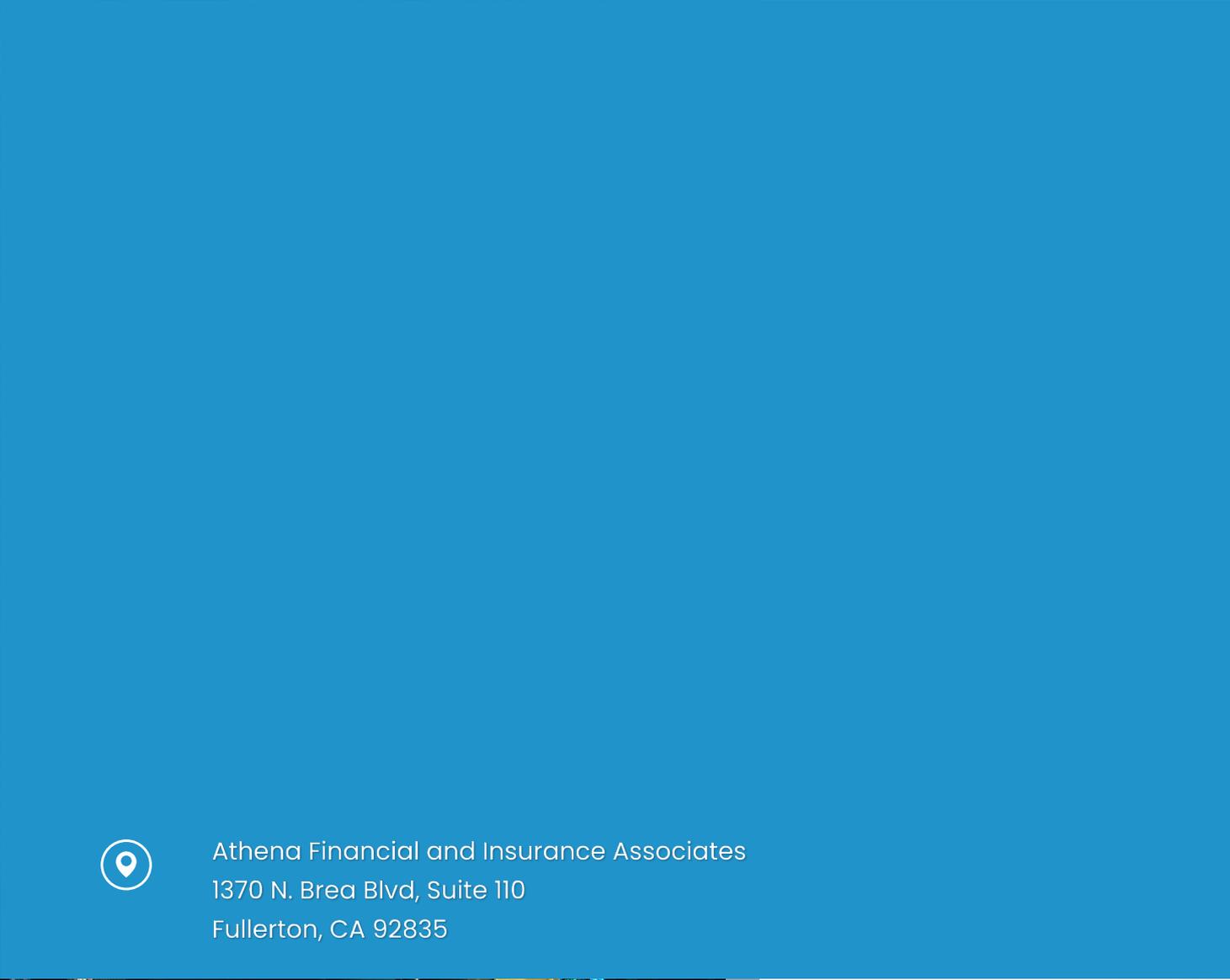
GENERAL INSURANCE

54. The cause of a loss is referred to as a(n)

Correct Answer: "peril". A peril is an event or circumstance that causes or may potentially cause a loss. Examples of perils include fire, flooding, hailstorms, tornado, hurricane, auto accident or home accident such as falling.

55. People with higher loss exposure have the tendency to purchase insurance more often than those at average risk. This is called

Correct Answer: "adverse selection". Adverse selection is the tendency of persons with higher loss exposure to purchase insurance more often than those at average risk.



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