

Exam

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) A general insurance policy is also known as:

- A) a contract of formation.
- B) a contract of contingency.
- C) a contract of specification.
- D) a contract of indemnity.

Answer: D

2) A life insurance policy holder with a complaint involving under \$500 000 has the right to apply for a cost free resolution service from:

- A) the Financial Services Ombudsman.
- B) the Life Insurance Complaints Service.
- C) the Fair Trading Department in the relevant jurisdiction.
- D) the Supreme Court in the relevant jurisdiction.

Answer: A

3) Tony is in dispute with his insurance company over the payment of a water damage claim to his home. He wants to ask the Financial Services Ombudsman (FOS) to help resolve the dispute. Which of the following statements is true?

- A) Tony has no right to apply to FOS because he is a consumer and FOS only hears business insurance claims.
- B) Tony has the right to apply to FOS if his claim is less than \$250 000 and his annual gross income is less than \$150 000.
- C) Tony has the right to apply to FOS if his claim is less than \$300 000 and his annual gross income is less than \$100 000.
- D) Tony has the right to apply to FOS if his claim is less than \$500 000.

Answer: D

4) A person who completes a proposal form and returns it to an insurer usually is:

- A) making an offer.
- B) accepting an offer.
- C) making an invitation to treat.
- D) asking for advice.

Answer: A

5) Insured persons can satisfy the requirement for an insurable interest in property if they have current general insurance policy covering property and:

- A) they were the legal owners of the property when the insurance contract was made and the loss occurred.
- B) they were the equitable owners of the property when the insurance contract was made and the loss occurred.
- C) they suffered an economic loss.
- D) can satisfy any one of the above.

Answer: D

- 6) The insurable doctrine of utmost good faith means that the insurer and the insured must:
- A) disclose all material facts.
 - B) make a truthful representation about material facts.
 - C) sign a witnessed affidavit that they will be absolutely honest with each other.
 - D) comply with (follow) all of the above.
 - E) comply with A and B only.

Answer: E

- 7) When Marnie arranged insurance cover for the contents of the home unit she shares with Rico she did not disclose that she had made two burglary claims in the past five years. Rico had no knowledge of these claims. Six months after Marnie entered the insurance contract their unit was burgled and they lost goods worth \$7000. Which of the following statements is most likely to be true?
- A) The insurer is obliged to pay Rico compensation for any goods that were solely his property.
 - B) The insurer is obliged to pay approximately \$3500 to Rico.
 - C) The insurer can avoid paying any compensation.
 - D) The insurer may deduct the cost of half of the premiums paid by Marnie and Rico.

Answer: C

- 8) An insurer is not obliged to disclose matters that:
- A) the insurer knows or should know.
 - B) the insurer waives knowledge of (does not insist on knowing).
 - C) lessen the risk.
 - D) all of the above.
 - E) include A and B only.

Answer: D

- 9) An untrue statement by a person applying for insurance cover is not a misrepresentation if that person:
- A) had not checked to find out if the statement was true.
 - B) honestly believed the statement to be true.
 - C) provided an answer that was obviously incomplete or irrelevant.
 - D) all of the above.

Answer: C

- 10) When Shelley was filling in a proposal form for insurance cover for her house she was asked 'Has your property ever been infested with termites?' Shelley had found a few termites in a tree in her backyard last year. She sprayed them and they appeared to have been killed. She answered 'no' to the question because she believed that 'property' meant her house and 'infested' meant large numbers of termites. When Shelley claimed for storm damage the insurance company learnt about the termites in the tree and refused to pay her claim. Which of the following statements most accurately reflect Shelley's legal position?
- A) The insurer is not required to pay because the common law prudent insurer test has been abolished.
 - B) The insurer is not required to pay because Shelley did not honestly and reasonably believe her statement to be true.
 - C) The insurer must pay because Shelley is not claiming for termite damage.
 - D) The insurer must pay because the question was ambiguous or unclear and a reasonable person would have interpreted it in the same way as Shelley.

Answer: D

11) When Otto applied for insurance cover for his house he fraudulently failed to disclose that the foundations of his house were cracked. Six months after the insurance policy was taken out Otto's house was accidentally destroyed by fire. Which of the following statements is true?

- A) The insurer is not obliged to pay Otto's claim.
- B) The insurer is probably obliged to pay Otto's claim minus the extra premium the insurer would have charged if it had known about the weak foundations.
- C) The insurer is probably obliged to pay Otto's claim in full.
- D) The insurer is obliged to pay the claim but it can cancel Otto's policy.

Answer: A

12) Soon after leaving hospital after undergoing a major operation, you renewed the insurance cover on your house, which lies next to a cliff. Because of the effects of the anaesthetic you innocently forgot to disclose a geo-technical report stating your house could slip off the cliff during heavy rains unless major strengthening work was carried out. Before you fully recovered your senses, your house was damaged by fire. Your insurer has a firm policy of never insuring properties with geo-technical problems. What is the most likely outcome?

- A) your insurer probably has to pay your claim because its agent was negligent in not checking whether there was a geo-technical report.
- B) the insurer has to pay your claim minus the highest premium it could have charged.
- C) the insurer is probably not obliged to pay you anything.
- D) the insurer probably cannot refuse to pay your claim.

Answer: C

13) When an insured (a person who is covered by an insurance policy) commits an innocent breach of their duty of utmost good faith the insurer usually has the right:

- A) to claim the property that was covered by the policy.
- B) to refuse to pay the claim.
- C) to reduce the payout figure and sue for damages.
- D) to reduce the payout figure to reach its correct financial position.

Answer: D

14) All insurers have a duty to:

- A) to allow consumers a 14 day cooling-off period.
- B) to be prompt in admitting liability and paying claims.
- C) to inform the insured in writing of the general nature and effect of the duty of disclosure.
- D) to conform with all of the above.

Answer: D

15) When Nora applied for life insurance in 2000 she reduced her true age by five years to gain a lower premium. When Nora died in 2012 her insurance company discovered the truth. Which of the following statements is true?

- A) The insurer is not obliged to pay the claim if it will suffer a loss of more than \$10 000.
- B) The insurer must pay the claim in full.
- C) The insurer must pay the claim minus the extra premium if it had known Nora's true age.
- D) The insurer is not obliged to pay the claim.

Answer: C

16) The doctrine of indemnity applies to:

- A) sickness policies.
- B) motor vehicle insurance policies.
- C) life insurance.
- D) accident policies.

Answer: B

17) When you make an insurance claim for loss or damage to property you must not make a profit. At best you are only entitled to a payment that restores you to the position you occupied prior to the loss or damage. This principle is known as the doctrine of:

- A) Proximate cause.
- B) Utmost Good Faith.
- C) Indemnity.
- D) Subrogation.

Answer: C

18) Fred insured his house for its true value of \$100 000 with insurer A and for \$50 000 with insurer B. When the house was totally destroyed by fire, Fred was entitled to receive:

- A) \$100 000 from A only.
- B) \$50 000 from A and \$50 000 from B.
- C) \$100 000 from A and \$50 000 from B.
- D) \$66 667 from A and \$33 333 from B.

Answer: D

19) X insures his house for \$100 000 with insurer A and with Insurer B for \$50 000 and pays premiums on both parties. What is the name for the type of insurance has X taken out?

- A) double insurance.
- B) domestic or spare insurance.
- C) under insurance.
- D) over insurance.

Answer: A

20) Emmanuelle insures her home, a farm house, for \$50 000 against loss by fire. The house has a market value of \$100, 000. A fire causes damage of \$20 000 to the house. Emanuelle will be able to recover:

- A) Nothing-because she is under-insured.
- B) \$12 500.
- C) \$20 000.
- D) \$15 000.
- E) \$10 000.

Answer: B

21) The rule in insurance law that allows an insurer to substitute one thing for another is known as the doctrine of:

- A) equitable substitution.
- B) indemnity.
- C) proximation.
- D) subrogation.

Answer: D

22) Which of the following statements best describes the doctrine of subrogation in insurance?

- A) The insured must always have an insurable interest.
- B) The insured has a duty not to over insure or under insure.
- C) The insurer who pays a claim in full has the right to acquire the legal rights of the insured.
- D) The insured has a duty to make a full and honest disclosure.

Answer: C

23) Which of the following is not true regarding the doctrine of subrogation in insurance law?

- A) The insurer, when taking legal action against the party at fault, must sue in its own name.
- B) When the insured has received a full payout for a claim the insurer can retain any money received in excess of the claim.
- C) The insurer acquires all legal rights that an insured has in regard to a claim, including the right to sue the party at fault.
- D) If the insured releases the party at fault from liability, the insurer is probably also released from liability.

Answer: A

- 24) John is an agent who works on commission for the PERP Life Insurance company. When he was filling in a proposal form for Inoke, who was illiterate, John deliberately wrote down false answers about Inoke's health to make sure he got his commission. Inoke did not realise John had provided false answers. Which of the following statements is true?
- A) The insurer is obliged to pay any claim because it is deemed to have known the answers were false.
 - B) If the insurer finds out before Inoke makes a claim it can cancel the policy.
 - C) The insurer does not have to pay any claim by Inoke because John was not an employee. Inoke must sue John for compensation.
 - D) The insurer does not have to pay. John was an agent for Inoke and what he has done is deemed to have also been done by Inoke.

Answer: A

- 25) Section 985B of the *Corporations Act 2001* provides that if an insured pays the correct premium to an intermediary (such as a broker):
- A) the payment is not regarded as having been received by the insurer.
 - B) the insured must recover any losses from the intermediary.
 - C) the payment is regarded as having been received by the insurer.
 - D) the insurer is only obliged to refund the premium to the insured.

Answer: C

- 26) A property was badly damaged by fire several months after the owner had handed her premium renewal payment to her insurance broker. The owner now knows that the broker did not pass on the premium or advise the insurer that he was holding the premium. Which of the following statements is true?
- A) The broker and the insurer will probably share the cost of the claim.
 - B) The insurer is liable to pay the claim because payment of a premium to a broker is deemed (considered) to be a payment to the insurer.
 - C) The broker is probably liable to pay the claim.
 - D) Neither the broker nor the insurer is liable but the owner is entitled to be repaid the premium plus interest.

Answer: C

- 27) Bonning & Bonning is the name of an accounting partnership which specialises in taxation advice. It has a 5 year lease over a three-storey office building next to Sydney harbour. The firm has over 30 visitors per day. Which of the following insurance policies will Bonning & Boning need to take out to ensure they have adequate protection against risks that apply to their situation?
- A) Industrial special risks.
 - B) Professional indemnity.
 - C) Marine insurance.
 - D) All of the above.
 - E) A and B above only.

Answer: E

- 28) An industrial special risks policy covers loss or damage from most of the perils included in commercial insurance policies. Which of the following perils would be included in an industrial special risks policy?
- A) Loss of profits.
 - B) Fire and extraneous risks.
 - C) Burglary, theft and cash in transit.
 - D) Failure of equipment or machinery.
 - E) All of the above.

Answer: E