

CHAPTER 1

INTRODUCTION TO INSURANCE

Test Yourself 1

Which among the following is the regulator for the insurance industry in India?

- I. Insurance Authority of India
- II. Insurance Regulatory and Development Authority of India
- III. Life Insurance Corporation of India
- IV. General Insurance Corporation of India

Test Yourself 2

Which among the following is a secondary burden of risk?

- I. Business interruption cost
- II. Goods damaged cost
- III. Setting aside reserves as a provision for meeting potential losses in the future
- IV. Hospitalisation costs as a result of heart attack

Test Yourself 3

Which among the following is a method of risk transfer?

- I. Bank FD
- II. Insurance
- III. Equity shares
- IV. Real estate

Test Yourself 4

Which among the following scenarios warrants insurance?

- I. The sole bread winner of a family might die untimely
- II. A person may lose his wallet
- III. Stock prices may fall drastically
- IV. A house may lose value due to natural wear and tear

Test Yourself 5

Which of the below insurance scheme is run by an insurer and not sponsored by the Government?

- I. Employees State Insurance Corporation
- II. Crop Insurance Scheme
- III. Jan Arogya
- IV. All of the above

Answers to Test Yourself

Answer 1

The correct option is II.

Insurance Regulatory and Development Authority of India is the regulator for the insurance industry in India.

Answer 2

The correct option is III.

The need for setting aside reserves as a provision for potential losses in the future is a secondary burden of risk.

Answer 3

The correct option is II.

Insurance is a method of risk transfer.

Answer 4

The correct option is I.

The bread winner of a family might die untimely leaving the entire family to fend for itself, such a scenario warrants purchasing of life insurance.

Answer 5

The correct option is III.

The Jan Arogya insurance scheme is run by an insurer and not sponsored by the Government.

Self-Examination Questions

Question 1

Risk transfer through risk pooling is called _____.

- I. Savings
- II. Investments
- III. Insurance
- IV. Risk mitigation

Question 2

The measures to reduce chances of occurrence of risk are known as _____.

- I. Risk retention
- II. Loss prevention
- III. Risk transfer
- IV. Risk avoidance

Question 3

By transferring risk to insurer, it becomes possible _____.

- I. To become careless about our assets
- II. To make money from insurance in the event of a loss
- III. To ignore the potential risks facing our assets
- IV. To enjoy peace of mind and plan one's business more effectively

Question 4

Origins of modern insurance business can be traced to _____.

- I. Bottomry
- II. Lloyds
- III. Rhodes
- IV. Malhotra Committee

Question 5

In insurance context 'risk retention' indicates a situation where _____.

- I. Possibility of loss or damage is not there
- II. Loss producing event has no value
- III. Property is covered by insurance

IV. One decides to bear the risk and its effects

Question 6

Which of the following statement is true?

- I. Insurance protects the asset
- II. Insurance prevents its loss
- III. Insurance reduces possibilities of loss
- IV. Insurance pays when there is loss of asset

Question 7

Out of 400 houses, each valued at Rs. 20,000, on an average 4 houses get burnt every year resulting in a combined loss of Rs. 80,000. What should be the annual contribution of each house owner to make good this loss?

- I. Rs.100/-
- II. Rs.200/-
- III. Rs.80/-
- IV. Rs.400/-

Question 8

Which of the following statements is true?

- I. Insurance is a method of sharing the losses of a 'few' by 'many'
- II. Insurance is a method of transferring the risk of an individual to another individual
- III. Insurance is a method of sharing the losses of a 'many' by a few
- IV. Insurance is a method of transferring the gains of a few to the many

Question 9

Why do insurers arrange for survey and inspection of the property before acceptance of a risk?

- I. To assess the risk for rating purposes
- II. To find out how the insured purchased the property
- III. To find out whether other insurers have also inspected the property
- IV. To find out whether neighbouring property also can be insured

Question 10

Which of the below option best describes the process of insurance?

- I. Sharing the losses of many by a few
- II. Sharing the losses of few by many
- III. One sharing the losses of few

IV. Sharing of losses through subsidy

Answers to Self-Examination Questions

Answer 1

The correct option is III.

Risk transfer through risk pooling is called insurance.

Answer 2

The correct option is II.

The measures to reduce chances of occurrence of risk are known as loss prevention measures.

Answer 3

The correct option is IV.

By transferring risk to insurer, it becomes possible to enjoy peace of mind and plan one's business more effectively.

Answer 4

The correct option is II.

Origins of modern insurance business can be traced to Lloyd's.

Answer 5

The correct option is IV.

In the insurance context 'risk retention' indicates a situation where one decides to bear the risk and its effects.

Answer 6

The correct option is IV.

Insurance pays when there is loss of asset.

Answer 7

The correct option is II.

Rs. 200 per household should cover the loss.

Answer 8

The correct option is I.

Insurance is a method of sharing the losses of a 'few' by 'many'.

Answer 9

The correct option is I.

Before acceptance of a risk, insurers arrange survey and inspection of the property to assess the risk for rating purposes.

Answer 10

The correct option is II.

Insurance may be considered as a process by which the losses of a few, who are unfortunate to suffer such losses, are shared amongst those exposed to similar uncertain events / situations.

CHAPTER 2

CUSTOMER SERVICE

Test Yourself 1

What is meant by customer lifetime value?

- I. Sum of costs incurred while servicing the customer over his lifetime
- II. Rank given to customer based on business generated
- III. Sum of economic benefits that can be achieved by building a long term relationship with the customer
- IV. Maximum insurance that can be attributed to the customer

Test Yourself 2

Identify the scenario where a debate on the need for insurance is not required.

- I. Property insurance
- II. Business liability insurance
- III. Motor insurance for third party liability
- IV. Fire insurance

Test Yourself 3

As per the Consumer Protection Act, 1986, who cannot be classified as a consumer?

- I. Hires goods / services for personal use
- II. A person who buys goods for resale purpose
- III. Buys goods and services for a consideration and uses them
- IV. Uses the services of another for a consideration

Test Yourself 4

What does not go on to make a healthy relationship?

- I. Attraction
- II. Trust
- III. Communication
- IV. Scepticism

Test Yourself 5

Which among the following is not an element of active listening?

- I. Paying good attention
- II. Being extremely judgemental
- III. Empathetic listening
- IV. Responding appropriately

Test Yourself 6

Which among the following is not a characteristic of ethical behaviour?

- I. Making adequate disclosures to enable the clients to make an informed decision
- II. Maintaining confidentiality of client's business and personal information
- III. Placing self-interest ahead of client's interests
- IV. Placing client's interest ahead of self interest

Answers to Test Yourself

Answer 1

The correct option is III.

Sum of economic benefits that can be achieved by building a long-term relationship with the customer is referred to as customer lifetime value.

Answer 2

The correct option is III.

Motor insurance for third party liability is mandatory by law and hence a debate on its need is not required.

Answer 3

The correct option is II.

As per the Consumer Protection Act, 1986, a person who buys goods for resale purpose cannot be classified as consumer.

Answer 4

The correct option is IV.

Scepticism does not go on to make a healthy relationship.

Answer 5

The correct option is II.

Being extremely judgemental is not an element of active listening.

Answer 6

The correct option is III.

Placing self-interest ahead of client's interests is not ethical behaviour.

Self-Examination Questions

Question 1

_____ is not a tangible good.

- I. House
- II. Insurance
- III. Mobile phone
- IV. A pair of jeans

Question 2

_____ is not an indicator of service quality.

- I. Cleverness
- II. Reliability
- III. Empathy
- IV. Responsiveness

Question 3

In India _____ insurance is mandatory.

- I. Motor third party liability
- II. Fire insurance for houses
- III. Travel insurance for domestic travel
- IV. Personal accident

Question 4

One of the methods of reducing insurance cost of an insured is _____

- I. Reinsurance
- II. Deductible
- III. Co-insurance
- IV. Rebate

Question 5

A customer having complaint regarding his insurance policy can approach IRDA through

- I. IGMS
- II. District Consumer Forum
- III. Ombudsman
- IV. IGMS or District Consumer Forum or Ombudsman

Question 6

Consumer Protection Act deals with:

- I. Complaint against insurance companies
- II. Complaint against shopkeepers
- III. Complaint against brand
- IV. Complaint against insurance companies, brand and shopkeepers

Question 7

_____ has jurisdiction to entertain matters where value of goods or services and the compensation claim is up to 20 lakhs

- I. High Court
- II. District Forum
- III. State Commission
- IV. National Commission

Question 8

In customer relationship the first impression is created:

- I. By being confident
- II. By being on time
- III. By showing interest
- IV. By being on time, showing interest and being confident

Question 9

Select the correct statement:

- I. Ethical behaviour is impossible while selling insurance
- II. Ethical behaviour is not necessary for insurance agents
- III. Ethical behaviour helps in developing trust between the agent and the insurer
- IV. Ethical behaviour is expected from the top management only

Question 10

Active Listening involves:

- I. Paying attention to the speaker
- II. Giving an occasional nod and smile
- III. Providing feedback
- IV. Paying attention to the speaker, giving an occasional nod and smile and providing feedback

Answers to Self-Examination Questions

Answer 1

The correct option is II.

Insurance is not a tangible good.

Answer 2

The correct option is I.

Cleverness is not an indicator of service quality.

Answer 3

The correct option is I.

Motor third party liability insurance is mandatory in India.

Answer 4

The correct option is II.

One of the methods of reducing insurance cost of an insured is the deductible clause in a policy.

Answer 5

The correct option is I.

A customer having complaint regarding his insurance policy can approach IRDA through IGMS.

Answer 6

The correct option is IV.

Consumer Protection Act deals with complaint against insurance companies, shopkeepers and brands.

Answer 7

The correct option is II.

District Forum has jurisdiction to entertain where value of goods or services and the compensation claim is up to 20 lakhs.

Answer 8

The correct option is IV.

In customer relationship the first impression is created by being confident, on time and by showing interest.

Answer 9

The correct option is III.

Ethical behaviour helps in developing trust in the agent and the insurer.

Answer 10

The correct option is IV.

Active Listening involves paying attention to the speaker, giving an occasional nod and smile and providing feedback.

CHAPTER 3

Test Yourself 1

The _____ has jurisdiction to entertain complaints, where value of the goods or services and the compensation claimed is up to Rs.20 lakhs.

- I. District Forum
- II. State Commission
- III. Zilla Parishad
- IV. National Commission

Answers to Test Yourself

Answer 1

The correct answer is I.

The District Forum has jurisdiction to entertain complaints, where value of the goods or services and the compensation claimed is up to Rs. 20 lakhs.

Self-Examination Questions

Question 1

Expand the term IGMS.

- I. Insurance General Management System
- II. Indian General Management System
- III. Integrated Grievance Management System
- IV. Intelligent Grievance Management System

Question 2

Which of the below consumer grievance redressal agencies would handle consumer disputes amounting between Rs. 20 lakhs and Rs. 100 lakhs?

- I. District Forum
- II. State Commission
- III. National Commission
- IV. Zilla Parishad

Question 3

Which among the following cannot form the basis for a valid consumer complaint?

- I. Shopkeeper charging a price above the MRP for a product
- II. Shopkeeper not advising the customer on the best product in a category
- III. Allergy warning not provided on a drug bottle
- IV. Faulty products

Question 4

Which of the below will be the most appropriate option for a customer to lodge an insurance policy related complaint?

- I. Police
- II. Supreme Court
- III. Insurance Ombudsman
- IV. District Court

Question 5

Which of the below statement is correct with regards to the territorial jurisdiction of the Insurance Ombudsman?

- I. Insurance Ombudsman has National jurisdiction
- II. Insurance Ombudsman has State jurisdiction
- III. Insurance Ombudsman has District jurisdiction
- IV. Insurance Ombudsman operates only within the specified territorial limits

Question 6

How is the complaint to be launched with an insurance ombudsman?

- I. The complaint is to be made in writing
- II. The complaint is to be made orally over the phone
- III. The complaint is to be made orally in a face to face manner
- IV. The complaint is to be made through newspaper advertisement

Question 7

What is the time limit for approaching an Insurance Ombudsman?

- I. Within two years of rejection of the complaint by the insurer
- II. Within three years of rejection of the complaint by the insurer
- III. Within one year of rejection of the complaint by the insurer
- IV. Within one month of rejection of the complaint by the insurer

Question 8

Which among the following is not a pre-requisite for launching a complaint with the Ombudsman?

- I. The complaint must be by an individual on a 'Personal Lines' insurance
- II. The complaint must be lodged within 1 year of the insurer rejecting the complaint
- III. Complainant has to approach a consumer forum prior to the Ombudsman
- IV. The total relief sought must be within an amount of Rs.20 lakhs.

Question 9

Are there any fee / charges that need to be paid for lodging the complaint with the Ombudsman?

- I. A fee of Rs 100 needs to be paid
- II. No fee or charges need to be paid
- III. 20% of the relief sought must be paid as fee
- IV. 10% of the relief sought must be paid as fee

Question 10

Can a complaint be launched against a private insurer?

- I. Complaints can be launched against public insurers only
- II. Yes, complaint can be launched against private insurers
- III. Complaint can be launched against private insurers only in the Life Sector
- IV. Complaint can be launched against private insurers only in the Non-Life Sector

Answers to Self-Examination Questions

Answer 1

The correct option is III.

IGMS stands for Integrated Grievance Management System.

Answer 2

The correct option is II.

State Commission would handle consumer disputes amounting between Rs. 20 lakhs and Rs. 100 lakhs.

Answer 3

The correct option is II.

Shopkeeper not advising the customer on the best product in a category cannot form the basis of a valid consumer complaint.

Answer 4

The correct option is III.

Complaint is to be lodged with the Insurance Ombudsman under whose territorial jurisdiction the insurer's office falls.

Answer 5

The correct option is IV.

Insurance Ombudsman operates only within the specified territorial limits.

Answer 6

The correct option is I.

The complaint to the ombudsman is to be made in writing.

Answer 7

The correct option is III.

The complainant must approach the ombudsman within one year of rejection of the complaint by the insurer.

Answer 8

The correct option is III.

Complainant need not approach a consumer forum prior to the Ombudsman.

Answer 9

The correct option is II.

No fee / charges need to be paid for lodging the complaint with the Ombudsman.

Answer 10

The correct option is II.

Yes, a complaint can be launched against private insurers.

CHAPTER 5

Test Yourself 1

Which among the following is an example of coercion?

- I. Ramesh signs a contract without having knowledge of the fine print
- II. Ramesh threatens to kill Mahesh if he does not sign the contract
- III. Ramesh uses his professional standing to get Mahesh to sign a contract
- IV. Ramesh provides false information to get Mahesh to sign a contract

Test Yourself 2

Which among the following options cannot be insured by Ramesh?

- I. Ramesh's house
- II. Ramesh's spouse
- III. Ramesh's friend
- IV. Ramesh's parents

Answers to Test Yourself

Answer 1

The correct option is II.

Ramesh threatening to kill Mahesh if he does not sign the contract is an example of coercion.

Answer 2

The correct option is III.

Ramesh does not have insurable interest in his friend's life and hence cannot insure the same.

Self-Examination Questions

Question 1

Which element of a valid contract deals with premium?

- I. Offer and acceptance
- II. Consideration
- III. Free consent
- IV. Capacity of parties to contract

Question 2

_____ relates to inaccurate statements, which are made without any fraudulent intention.

- I. Misrepresentation
- II. Contribution
- III. Offer
- IV. Representation

Question 3

_____ involves pressure applied through criminal means.

- I. Fraud
- II. Undue influence
- III. Coercion
- IV. Mistake

Question 4

Which among the following is true regarding life insurance contracts?

- I. They are verbal contracts not legally enforceable
- II. They are verbal which are legally enforceable
- III. They are contracts between two parties (insurer and insured) as per requirements of Indian Contract Act, 1872
- IV. They are similar to wager contracts

Question 5

Which of the below is not a valid consideration for a contract?

- I. Money
- II. Property
- III. Bribe
- IV. Jewellery

Question 6

Which of the below party is not eligible to enter into a life insurance contract?

- I. Business owner
- II. Minor
- III. House wife
- IV. Government employee

Question 7

Which of the below action showcases the principle of “Uberrima Fides”?

- I. Lying about known medical conditions on an insurance proposal form
- II. Not revealing known material facts on an insurance proposal form
- III. Disclosing known material facts on an insurance proposal form
- IV. Paying premium on time

Question 8

Which of the below is not correct with regards to insurable interest?

- I. Father taking out insurance policy on his son
- II. Spouses taking out insurance on one another
- III. Friends taking out insurance on one another
- IV. Employer taking out insurance on employees

Question 9

When is it essential for insurable interest to be present in case of life insurance?

- I. At the time of taking out insurance
- II. At the time of claim
- III. Insurable interest is not required in case of life insurance
- IV. Either at time of policy purchase or at the time of claim

Question 10

Find out the proximate cause for death in the following scenario?

Ajay falls off a horse and breaks his back. He lies there in a pool of water and contracts pneumonia. He is admitted to the hospital and dies because of pneumonia.

- I. Pneumonia
- II. Broken back
- III. Falling off a horse
- IV. Surgery

Answers to Self-Examination Questions

Answer 1

The correct option is II.

The element of a valid contract deals with premium is consideration.

Answer 2

The correct option is I.

Misrepresentation relates to inaccurate statements, which are made without any fraudulent intention.

Answer 3

The correct option is III.

Coercion involves pressure applied through criminal means.

Answer 4

The correct option is III.

Life insurance contracts are contracts between two parties (insurer and insured) as per requirements of Indian Contract Act, 1872.

Answer 5

The correct option is III.

Bribe is not a valid consideration for a contract.

Answer 6

The correct option is II.

Minors are not eligible to contract a life insurance contract.

Answer 7

The correct option is III.

Disclosing known material facts on an insurance proposal form is in tune with the principle of "Uberrima Fides".

Answer 8

The correct option is III.

Friends cannot take out insurance on one another as there is no insurable interest present.

Answer 9

The correct option is I.

In case of life insurance insurable interest needs to be present at the time of taking out insurance.

Answer 10

The correct option is III.

Falling off the horse is the proximate cause for Ajay's death.

CHAPTER 6

WHAT LIFE INSURANCE INVOLVES

Answers to Test Yourself

Answer 1

The correct answer is II.

Diversification aims to reduce risks in financial markets by spreading investments across various asset classes.

Self-Examination Questions

Question 1

Which of the below is not an element of the life insurance business?

- I. Asset
- II. Risk
- III. Principle of mutuality
- IV. Subsidy

Question 2

Who devised the concept of HLV?

- I. Dr. Martin Luther King
- II. Warren Buffet
- III. Prof. Hubener
- IV. George Soros

Question 3

Which of the below mentioned insurance plans has the least or no amount of savings element?

- I. Term insurance plan
- II. Endowment plan
- III. Whole life plan
- IV. Money back plan

Question 4

Which among the following cannot be termed as an asset?

- I. Car

- II. Human Life
- III. Air
- IV. House

Question 5

Which of the below cannot be categorised under risks?

- I. Dying too young
- II. Dying too early
- III. Natural wear and tear
- IV. Living with disability

Question 6

- I. Life insurance policies are contracts of indemnity while general insurance policies are contracts of assurance
- II. Life insurance policies are contracts of assurance while general insurance policies are contracts of indemnity
- III. In case of general insurance the risk event protected against is certain
- IV. The certainty of risk event in case of general insurance increases with time

Question 7

Which among the following methods is a traditional method that can help determine the insurance needed by an individual?

- I. Human Economic Value
- II. Life Term Proposition
- III. Human Life Value
- IV. Future Life Value

Question 8

Which of the below is the most appropriate explanation for the fact that young people are charged lesser life insurance premium as compared to old people?

- I. Young people are mostly dependant
- II. Old people can afford to pay more
- III. Mortality is related to age
- IV. Mortality is inversely related to age

Question 9

Which of the below is not an advantage of cash value insurance contracts?

- I. Safe and secure investment
- II. Inculcates saving discipline
- III. Lower yields

IV. Income tax advantages

Question 10

Which of the below is an advantage of cash value insurance contracts?

- I. Returns subject to corroding effect of inflation
- II. Low accumulation in earlier years
- III. Lower yields
- IV. Secure investment

Answers to Self-Examination Questions

Answer 1

The correct option is IV.

The elements of life insurance business include asset, risk, principle of mutuality and the life insurance contract.
Subsidy is not an element of life insurance business.

Answer 2

The correct option is III.

Prof. Hubener devised the concept of Human Life Value (HLV).

Answer 3

The correct option is I.

Term insurance does not have a savings element associated with it.

Answer 4

The correct option is III.

Air cannot be termed / categorised as an asset.

Answer 5

The correct option is III.

Natural wear and tear is a phenomenon and not a risk.

Answer 6

The correct option is II.

Life insurance policies are contracts of assurance while general insurance policies are contracts of indemnity.

Answer 7

The correct option is III.

Human Life Value is a method to calculate the amount of insurance needed by an individual.

Answer 8

The correct option is III.

Mortality is related to age and hence young people who are less likely to die are charged lower premiums as compared to old people.

Answer 9

The correct option is III.

Lower yield is one of the disadvantages of cash value insurance contracts.

Answer 10

The correct option is IV.

Secure investment is one of the advantages of cash value insurance contracts.

CHAPTER 7

FINANCIAL PLANNING

Test Yourself 1

Which among the following would you recommend in order to seek protection against unforeseen events?

- I. Insurance
- II. Transactional products like bank FD's
- III. Shares
- IV. Debentures

Test Yourself 3

Which among the following is not an objective of tax planning?

- I. Maximum tax benefit
- II. Reduced tax burden as a result of prudent investments
- III. Tax evasion
- IV. Full advantage of tax breaks

Answers to Test Yourself

Answer 1

The correct option is I.

Insurance provides protection against unforeseen events.

Answer 2

The correct option is II.

As soon as one gets his first salary one should start financial planning.

Answer 3

The correct option is III.

Tax evasion is not an objective of tax planning.

Self-Examination Questions

Question 1

An individual with an aggressive risk profile is likely to follow wealth _____ investment style.

- I. Consolidation
- II. Gifting
- III. Accumulation
- IV. Spending

Question 2

Which among the following is a wealth accumulation product?

- I. Bank Loans
- II. Shares
- III. Term Insurance Policy
- IV. Savings Bank Account

Question 3

Savings can be considered as a composite of two decisions. Choose them from the list below.

- I. Risk retention and reduced consumption
- II. Gifting and accumulation
- III. Spending and accumulation
- IV. Postponement of consumption and parting with liquidity

Question 4

During which stage of life will an individual appreciate past savings the most?

- I. Post retirement
- II. Earner
- III. Learner
- IV. Just married

Question 5

What is the relation between investment horizon and returns?

- I. Both are not related at all
- II. Greater the investment horizon the larger the returns
- III. Greater the investment horizon the smaller the returns
- IV. Greater the investment horizon more tax on the returns

Question 6

Which among the following can be categorised under transactional products?

- I. Bank deposits
- II. Life insurance
- III. Shares
- IV. Bonds

Question 7

Which among the following can be categorised under contingency products?

- I. Bank deposits
- II. Life insurance
- III. Shares
- IV. Bonds

Question 8

Which of the below can be categorised under wealth accumulation products?

- I. Bank deposits
- II. Life insurance
- III. General insurance
- IV. Shares

Question 9

_____ is a rise in the general level of prices of goods and services in an economy over a period of time.

- I. Deflation
- II. Inflation
- III. Stagflation
- IV. Hyperinflation

Question 10

Which of the below is not a strategy to maximise discretionary income?

- I. Debt restructuring
- II. Loan transfer
- III. Investment restructuring
- IV. Insurance purchase

Answers to Self-Examination Questions

Answer 1

The correct option is III.

Individual with an aggressive risk profile is likely to follow wealth accumulation investment style.

Answer 2

The correct option is II.

Shares are a wealth accumulation product.

Answer 3

The correct option is IV.

Savings is a combination of postponement of consumption and parting with liquidity.

Answer 4

The correct option is I.

Post retirement an individual appreciate past savings the most.

Answer 5

The correct option is II.

Greater the investment horizon larger will be the returns.

Answer 6

The correct option is I.

Bank deposits can be categorised under transactional products.

Answer 7

The correct option is II.

Life insurance can be categorised under contingency product.

Answer 8

The correct option is IV.

Shares can be categorised under wealth accumulation products.

Answer 9

The correct option is II.

Inflation is a rise in the general level of prices of goods and services in an economy over a period of time.

Answer 10

The correct option is IV.

Insurance purchase cannot maximise discretionary income.

CHAPTER 8

LIFE INSURANCE PRODUCTS - I

Test Yourself 1

Which among the following is an intangible product?

- I. Car
- II. House
- III. Life insurance
- IV. Soap

Test Yourself 2

The premium paid for whole life insurance is _____ than the premium paid for term assurance.

- I. Higher
- II. Lower
- III. Equal
- IV. Substantially higher

Answers to Test Yourself

Answer 1

The correct option is III.

Life insurance is an intangible product.

Answer 2

The correct option is I.

The premium paid for whole life insurance is higher than the premium paid for term assurance.

Self-Examination Questions

Question 1

_____ life insurance pays off a policyholder's mortgage in the event of the person's death.

- I. Term

- II. Mortgage
- III. Whole
- IV. Endowment

Question 2

The _____ the premium paid by you towards your life insurance, the _____ will be the compensation paid to the beneficiary in the event of your death.

- I. Higher, Higher
- II. Lower, Higher
- III. Higher, Lower
- IV. Faster, Slower

Question 3

Which of the below option is correct with regards to a term insurance plan?

- I. Term insurance plans come with life-long renewability option
- II. All term insurance plans come with a built-in disability rider
- III. Term insurance can be bought as a stand-alone policy as well as a rider with another policy
- IV. There is no provision in a term insurance plans to convert it into a whole life insurance plan

Question 4

In decreasing-term insurance, the premiums paid _____ over time.

- I. Increase
- II. Decrease
- III. Remain constant
- IV. Are returned

Question 5

Using the conversion option present in a term policy you can convert the same to _____.

- I. Whole life policy
- II. Mortgage policy
- III. Bank FD
- IV. Decreasing term policy

Question 6

What is the primary purpose of a life insurance product?

- I. Tax rebates

- II. Safe investment avenue
- III. Protection against the loss of economic value of an individual's productive abilities
- IV. Wealth accumulation

Question 7

Who among the following is best advised to purchase a term plan?

- I. An individual who needs money at the end of insurance term
- II. An individual who needs insurance and has a high budget
- III. An individual who needs insurance but has a low budget
- IV. An individual who needs an insurance product that gives high returns

Question 8

Which of the below statement is incorrect with regards to decreasing term assurance?

- I. Death benefit amount decreases with the term of coverage
- II. Premium amount decreases with the term of coverage
- III. Premium remains level throughout the term
- IV. Mortgage redemption plans are an example of decreasing term assurance plans

Question 9

Which of the below statement is correct with regards to endowment assurance plan?

- I. It has a death benefit component only
- II. It has a survival benefit component only
- III. It has both a death benefit as well as a survival component
- IV. It is similar to a term plan

Question 10

Which of the below is an example of an endowment assurance plan?

- I. Mortgage Redemption Plan
- II. Credit Life Insurance Plan
- III. Money Back Plan
- IV. Whole Life Plan

Answers to Self-Examination Questions

Answer 1

The correct option is II.

Mortgage life insurance pays off a policyholder's mortgage in the event of the person's death.

Answer 2

The correct option is I.

The higher the premium paid by you towards your life insurance, the higher will be the compensation paid to the beneficiary in the event of your death.

Answer 3

The correct option is III.

Term insurance can be bought as a stand-alone policy as well as a rider with another policy

Answer 4

The correct option is III.

In decreasing-term insurance, the premiums paid remain constant over time.

Answer 5

The correct option is I.

Using the conversion option present in a term policy you can convert the same to whole life policy.

Answer 6

The correct option is III.

Protection against the loss of economic value of an individual's productive abilities is the primary purpose behind a life insurance product.

Answer 7

The correct option is III.

Term plan is a good choice for an individual who needs insurance and has a low budget.

Answer 8

The correct option is II.

Premium remains level throughout the term for decreasing term assurance plans.

Answer 9

The correct option is III.

Endowment assurance plan has both a death benefit as well as a survival component.

Answer 10

The correct option is III.

Money Back Plan is an example of an endowment assurance plan.

CHAPTER 9

LIFE INSURANCE PRODUCTS - II

Test Yourself 1

Which among the following is a non-traditional life insurance product?

- I. Term assurance
- II. Universal life insurance
- III. Endowment insurance
- IV. Whole life insurance

Test Yourself 2

Which of the below statement is incorrect?

- I. Variable life insurance is a temporary life insurance policy
- II. Variable life insurance is a permanent life insurance policy
- III. The policy has a cash value account
- IV. The policy provides a minimum death benefit guarantee

Answers to Test Yourself

Answer 1

The correct option is II.

Universal life insurance is a non-traditional life insurance product.

Answer 2

The correct option is I.

The statement “Variable life insurance is a temporary life insurance policy” is incorrect.

The correct statement is “Variable life insurance is a permanent life insurance policy”.

Self-Examination Questions

Question 1

What does inter-temporal allocation of resources refer to?

- I. Postponing allocation of resources until the time is right
- II. Allocation of resources over time
- III. Temporary allocation of resources
- IV. Diversification of resource allocation

Question 2

Which among the following is a limitation of traditional life insurance products?

- I. Yields on these policies is high
- II. Clear and visible method of arriving at surrender value
- III. Well defined cash and savings value component
- IV. Rate of return is not easy to ascertain

Question 3

Where was the Universal Life Policy introduced first?

- I. USA
- II. Great Britain
- III. Germany
- IV. France

Question 4

Who among the following is most likely to buy variable life insurance?

- I. People seeking fixed return
- II. People who are risk averse and do not dabble in equity
- III. Knowledgeable people comfortable with equity
- IV. Young people in general

Question 5

Which of the below statement is true regarding ULIP's?

- I. Value of the units is determined by a formula fixed in advance
- II. Investment risk is borne by the insurer
- III. ULIP's are opaque with regards to their term, expenses and savings components
- IV. ULIP's are bundled products

Question 6

All of the following are characteristics of variable life insurance EXCEPT:

- I. Flexible premium payments
- II. Cash value is not guaranteed
- III. Policy owner selects where savings reserve is invested
- IV. Minimum Death benefit is guaranteed

Question 7

Which of the below is correct with regards to universal life insurance?

Statement I: It allows policy owner to vary payments

Statement II: Policy owner can earn market based rate of return on cash value

- I. I is true
- II. II is true
- III. I and II are true
- IV. I and II are false

Question 8

All of the following is true regarding ULIP's EXCEPT:

- I. Unit holder can choose between different kind of funds
- II. Life insurer provides guarantee for unit values
- III. Units may be purchased by payment of a single premium or via regular premium payments.
- IV. ULIP policy structure is transparent with regards to the insurance expenses component

Question 9

As per IRDAI norms, an insurance company can provide which of the below non-traditional savings life insurance products are permitted in India?

Choice I: Unit Linked Insurance Plans

Choice II: Variable Insurance Plans

- I. I only
- II. II only
- III. I and II both
- IV. Neither I nor II

Question 10

What does unbundling of life insurance products refers to?

- I. Correlation of life insurance products with bonds
- II. Correlation of life insurance products with equities
- III. Amalgamation of protection and savings element

IV. Separation of the protection and savings element

Answers to Self-Examination Questions

Answer 1

The correct option is II.

Inter-temporal allocation of resources refers to allocation of resources over time.

Answer 2

The correct option is IV.

Rate of return is not easy to ascertain in traditional life insurance products.

Answer 3

The correct option is I.

Universal Life Policy was first introduced in the USA.

Answer 4

The correct option is III.

Knowledgeable people comfortable with equity are most likely to buy variable life insurance.

Answer 5

The correct option is III.

ULIP's are transparent with regards to their term, expenses and savings components.

Answer 6

The correct option is I.

Premium payments are fixed and not flexible with variable life insurance.

Answer 7

The correct option is III.

Both statements are true. Premium payment flexibility is a characteristic of universal life insurance. This form of life insurance also permits the policy owner to earn a rate of return tied to some market-based index.

Answer 8

The correct option is II.

Life insurer does not provide guarantee for unit values in case of ULIP's.

Answer 9

The correct option is III.

As per IRDAI norms non-traditional savings life insurance products permitted in India include unit linked insurance plans and variable insurance plans.

Answer 10

The correct option is IV.

Separation of the protection and savings element refers to the unbundling of life insurance products.

CHAPTER 10

APPLICATIONS OF LIFE INSURANCE

Test Yourself 1

What is the objective behind Mortgage Redemption Insurance?

- I. Facilitate cheaper mortgage rates
- II. Provide financial protection for home loan borrowers
- III. Protect value of the mortgaged property
- IV. Evade eviction in case of default

Self-Examination Questions

Question 1

The sum assured under keyman insurance policy is generally linked to which of the following?

- I. Keyman income
- II. Business profitability
- III. Business history
- IV. Inflation index

Question 2

Mortgage redemption insurance (MRI) can be categorised under _____.

- I. Increasing term life assurance
- II. Decreasing term life assurance
- III. Variable life assurance
- IV. Universal life assurance

Question 3

Which of the below losses are covered under keyman insurance?

- I. Property theft
- II. Losses related to the extended period when a key person is unable to work
- III. General liability
- IV. Losses caused due to errors and omission

Question 4

A policy is effected under the MWP Act. If the policyholder does not appoint a special trustee to receive and administer the benefits under the policy, the sum secured under the policy becomes payable to the _____.

- I. Next of kin
- II. Official Trustee of the State
- III. Insurer
- IV. Insured

Question 5

Mahesh ran a business on borrowed capital. After his sudden demise, all the creditors are doing their best to go after Mahesh's assets. Which of the below assets is beyond the reach of the creditors?

- I. Property under Mahesh's name
- II. Mahesh's bank accounts
- III. Term life insurance policy purchased under Section 6 of MWP Act
- IV. Mutual funds owned by Mahesh

Question 6

Which of the below option is true with regards to MWP Act cases?

Statement I: Maturity claims cheques are paid to policyholders
Statement II: Maturity claims cheques are paid to trustees

- I. I is true
- II. II is true
- III. Both I and II are true
- IV. Neither I nor II is true

Question 7

Which of the below option is true with regards to MWP act cases?

Statement I: Death claims are settled in favour of nominees
Statement II: Death claims are settled in favour of trustees

- I. I is true
- II. II is true
- III. Both I and II are true
- IV. Neither I nor II is true

Question 8

Ajay pays insurance premium for his employees. Which of the below insurance premium will not be treated deductible as compensation paid to employee?

Choice I: Health insurance with benefits payable to employee

Choice II: Keyman life insurance with benefits payable to Ajay

- I. I only
- II. II only
- III. Both I and II
- IV. Neither I nor II

Question 9

The practice of charging interest to borrowers who pledge their property as collateral but leaving them in possession of the property is called

_____.

- I. Security
- II. Mortgage
- III. Usury
- IV. Hypothecation

Question 10

Which of the below policy can provide protection to home loan borrowers?

- I. Life Insurance
- II. Disability Insurance
- III. Mortgage Redemption Insurance
- IV. General Insurance

Answers to Self-Examination Questions

Answer 1

The correct option is II.

Sum assured under keyman insurance policy is generally linked to business profitability.

Answer 2

The correct option is II.

Mortgage redemption insurance (MRI) can be categorised under decreasing term life assurance.

Answer 3

The correct option is II.

Losses related to the extended period when a key person is unable to work are covered under keyman insurance.

Answer 4

The correct option is II.

If the policyholder does not appoint a special trustee to receive and administer the benefits under the policy, the sum secured under the policy becomes payable to the Official Trustee of the State.

Answer 5

The correct option is III.

Term life insurance policy purchased under Section 6 of MWP Act is beyond the reach of court attachments and creditors.

Answer 6

The correct option is II.

Maturity claims cheques are paid to trustees.

Answer 7

The correct option is II.

Death claims are settled in favour of trustees.

Answer 8

The correct option is II.

Keyman life insurance with benefits payable to Ajay will not be treated deductible as compensation paid to employee.

Answer 9

The correct option is II.

The practice of charging interest to borrowers who pledge their property as collateral but leaving them in possession of the property is called mortgage.

Answer 10

The correct option is III.

Mortgage Redemption Insurance can provide protection to home loan borrowers.

CHAPTER 11

PRICING AND VALUATION IN LIFE INSURANCE

Test Yourself 1

What does a policy lapse mean?

- I. Policyholder completes premium payment for a policy
- II. Policyholder discontinues premium payment for a policy
- III. Policy attains maturity
- IV. Policy is withdrawn from the market

Test Yourself 1

Who bears the investment risk in case of ULIPs?

- I. Insurer
- II. Insured
- III. State
- IV. IRDA

Answers to Test Yourself

Answer 1

The correct option is II.

Policyholder discontinuing premium payment for a policy is termed as policy lapse.

Answer 2

The correct option is II.

Insured bears the investment risk in case of ULIP.

Self-Examination Questions

Question 1

What does the term “premium” denote in relation to an insurance policy?

- I. Profit earned by the insurer
- II. Price paid by an insured for purchasing the policy
- III. Margins of an insurer on a policy
- IV. Expenses incurred by an insurer on a policy

Question 2

Which of the below is not a factor in determining life insurance premium?

- I. Mortality
- II. Rebate
- III. Reserves
- IV. Management expenses

Question 3

What is a policy withdrawal?

- I. Discontinuation of premium payment by policyholder
- II. Surrender of policy in return for acquired surrender value
- III. Policy upgrade
- IV. Policy downgrade

Question 4

Which of the below is one of the ways of defining surplus?

- I. Excessive liabilities
- II. Excessive turnover
- III. Excess value of liabilities over assets
- IV. Excess value of assets over liabilities

Question 5

Which of the below is not a component of ULIP premiums?

- I. Policy allocation charge
- II. Investment risk premium
- III. Mortality charge
- IV. Social security charge

Question 6

Life insurance companies may offer rebate to the buyer on the premium that is payable on the basis of _____.

- I. Sum assured chosen by the buyer
- II. Type of policy chosen by the buyer
- III. Term of the plan chosen by the buyer
- IV. Mode of payment (cash, cheque, card) chosen by the buyer

Question 7

Interest rates are one of the important components used while determining the premium. Which of the below statement is correct with regards to interest rates?

- I. Lower the interest rate assumed, lower the premium
- II. Higher the interest rate assumed, higher the premium
- III. Higher the interest rate assumed, lower the premium
- IV. The interest rates don't affect premiums

Question 8

Which of the below statement is correct?

- I. Business strain is the difficulty faced by the companies in securing new business
- II. Business strain arises at the end of the policy term.
- III. Business strain arises because of excess premium
- IV. Business strain arises because of excess expenses at the new business stage .

Question 9

With regards to valuation of assets by insurance companies, _____ is the value at which the life insurer has purchased or acquired its assets.

- I. Discounted future value
- II. Discounted present value
- III. Market value
- IV. Book value

Question 10

In case of _____, a company expresses the bonus as a percentage of basic benefit and already attached bonuses.

- I. Reversionary bonus
- II. Compound bonus
- III. Terminal bonus
- IV. Persistency bonus

Answers to Self-Examination Questions

Answer 1

The correct option is II.

Price paid by an insured for purchasing the policy is termed as premium.

Answer 2

The correct option is II.

Rebate is not a factor in determining life insurance premium.

Answer 3

The correct option is II.

Surrender of policy in return for acquired surrender value is termed as policy withdrawal.

Answer 4

The correct option is IV.

Excess value of assets over liabilities is one way of defining surplus.

Answer 5

The correct option is IV.

ULIP premium comprises of policy allocation charge, investment risk premium and mortality charge.

Answer 6

The correct option is I.

Life insurance companies may offer rebate to the buyer on the premium that is payable on the basis of sum assured chosen by the buyer.

Answer 7

The correct option is III.

Higher the interest rate assumed, lower the premium

Answer 8

The correct option is IV

Business strain arises because of excess expenses at new business stage.

Answer 9

The correct option is IV.

With regards to valuation of assets by insurance companies, book value is the value at which the life insurer has purchased or acquired its assets.

Answer 10

The correct option is II.

In case of compound bonus, a company expresses the bonus as a percentage of basic benefit and already attached bonuses.

CHAPTER 12

DOCUMENTATION - PROPOSAL STAGE

Test Yourself 1

During the _____ period, if the policyholder has bought a policy and does not want it, he / she can return it and get a refund.

- I. Free evaluation
- II. Free look
- III. Cancellation
- IV. Free trial

Answers to Test Yourself

Answer 1

The correct option is II.

During the free look period, if the policyholder has bought a policy and does not want it, he / she can return it and get a refund.

Self-Examination Questions

Question 1

Which of the below is an example of standard age proof?

- I. Ration card
- II. Horoscope
- III. Passport
- IV. Village Panchayat certificate

Question 2

Which of the below can be attributed to moral hazard?

- I. Increased risky behaviour following the purchase of insurance
- II. Increased risky behaviour prior to the purchase of insurance
- III. Decreased risky behaviour following the purchase of insurance
- IV. Engaging in criminal acts post being insured

Question 3

Which of the below features will be checked in a medical examiner's report?

- I. Emotional behaviour of the proposer

- II. Height, weight and blood pressure
- III. Social status
- IV. Truthfulness

Question 4

A _____ is a formal legal document used by insurance companies that provides details about the product.

- I. Proposal form
- II. Proposal quote
- III. Information docket
- IV. Prospectus

Question 5

The application document used for making the proposal is commonly known as the _____.

- I. Application form
- II. Proposal form
- III. Registration form
- IV. Subscription form

Question 6

From the below given age proof documents, identify the one which is classified as non-standard by insurance companies.

- I. School certificate
- II. Identity card in case of defence personnel
- III. Ration card
- IV. Certificate of baptism

Question 7

Money laundering is the process of bringing _____ money into an economy by hiding its _____ origin so that it appears to be legally acquired.

- I. Illegal, illegal
- II. Legal, legal
- III. Illegal, legal
- IV. Legal, illegal

Question 8

In case the policyholder is not satisfied with the policy, he / she can return the policy within the free-look period i.e. within _____ of receiving the policy document.

- I. 60 days

- II. 45 days
- III. 30 days
- IV. 15 days

Question 9

Which of the below statement is correct with regards to a policy returned by a policyholder during the free look period?

- I. The insurance company will refund 100% of the premium
- II. The insurance company will refund 50% of the premium
- III. The insurance company will refund the premium after adjusting for proportionate risk premium for the period on cover, medical examination expenses and stamp duty charges
- IV. The insurance company will forfeit the entire premium

Question 10

Which of the below is not a valid address proof?

- I. PAN Card
- II. Voter ID Card
- III. Bank passbook
- IV. Driving licence

Answers to Self-Examination Questions

Answer 1

The correct option is III.

Passport is an example of a standard age proof.

Answer 2

The correct option is I.

Increased risky behaviour following the purchase of insurance can be attributed to moral hazard.

Answer 3

The correct option is II.

Height, weight and blood pressure are among the few items that will be checked in a medical examiner's report.

Answer 4

The correct option is IV.

A prospectus is a formal legal document used by insurance companies that provides details about the product.

Answer 5

The correct option is II.

The application document used for making the proposal is commonly known as the proposal form.

Answer 6

The correct option is III.

Ration card is classified as a non-standard age proof.

Answer 7

The correct option is I.

Money laundering is the process of bringing illegal money into an economy by hiding its illegal origin so that it appears to be legally acquired.

Answer 8

The correct option is IV.

In case the policyholder is not satisfied with the policy, he / she can return the policy within the free-look period i.e. within 15 days of receiving the policy document.

Answer 9

The correct option is III.

With regards to a policy returned by a policyholder during the free look period, the insurance company will refund the premium after adjusting for proportionate risk premium for the period on cover, medical examination expenses and stamp duty charges.

Answer 10

The correct option is II.

PAN Card is not a valid address proof

CHAPTER 13

DOCUMENTATION - POLICY CONDITION - I

Test Yourself 1

What does a first premium receipt (FPR) signify? Choose the most appropriate option.

- I. Free look period has ended
- II. It is evidence that the policy contract has begun
- III. Policy cannot be cancelled now
- IV. Policy has acquired a certain cash value

Answers to Test Yourself

Answer 1

The correct option is II.

FPR is evidence that policy contract has begun.

Self-Examination Questions

Question 1

Which of the following documents is an evidence of the contract between insurer and insured?

- I. Proposal form
- II. Policy document
- III. Prospectus
- IV. Claim form

Question 2

If complex language is used to word a certain policy document and it has given rise to an ambiguity, how will it generally be construed?

- I. In favour of insured
- II. In favour of insurer
- III. The policy will be declared as void and the insurer will be asked to return the premium with interest to the insured
- IV. The policy will be declared as void and the insurer will be asked to return the premium to the insured without any interest

Question 3

Select the option that best describes a policy document.

- I. It is evidence of the insurance contract
- II. It is evidence of the interest expressed by the insured in buying an insurance policy from the company
- III. It is evidence of the policy (procedures) followed by an insurance company when dealing with channel partners like banks, brokers and other entities
- IV. It is an acknowledgement slip issued by the insurance company on payment of the first premium

Question 4

Which of the below statement is correct?

- I. The proposal form acceptance is the evidence that the policy contract has begun
- II. The acceptance of premium is evidence that the policy has begun
- III. The First Premium Receipt is the evidence that the policy contract has begun
- IV. The premium quote is evidence that the policy contract has begun

Question 5

For the subsequent premiums received by the insurance company after the first premium, the company will issue _____.

- I. Revival premium receipt
- II. Restoration premium receipt
- III. Reinstatement premium receipt
- IV. Renewal premium receipt

Question 6

What will happen if the insured person loses the original life insurance policy document?

- I. The insurance company will issue a duplicate policy without making any changes to the contract
- II. The insurance contract will come to an end
- III. The insurance company will issue a duplicate policy with renewed terms and conditions based on the current health declarations of the life insured

IV. The insurance company will issue a duplicate policy without making any changes to the contract, but only after a Court order.

Question 7

Which of the below statement is correct?

- I. The policy document has to be signed by a competent authority but need not be compulsorily stamped according to the Indian Stamp Act.
- II. The policy document has to be signed by a competent authority and should be stamped according to the Indian Stamp Act.
- III. The policy document need not be signed by a competent authority but should be stamped according to the Indian Stamp Act.
- IV. The policy document neither needs to be signed by a competent authority nor it needs to be compulsorily stamped according to the Indian Stamp Act.

Question 8

Which of the below forms the first part of a standard insurance policy document?

- I. Policy schedule
- II. Standard provisions
- III. Specific policy provisions
- IV. Claim procedure

Question 9

In a standard insurance policy document, the standard provisions section will have information on which of the below?

- I. Date of commencement, date of maturity and due date of last premium
- II. Name of nominee
- III. The rights and privileges and other conditions, which are applicable under the contract
- IV. The signature of the authorised signatory and policy stamp

Question 10

“A clause precluding death due to pregnancy for a lady who is expecting at the time of writing the contract” will be included in which section of a standard policy document?

- I. Policy schedule
- II. General provisions
- III. Standard provisions
- IV. Specific policy provisions

Answers to Self-Examination Questions

Answer 1

The correct option is II.

Policy document is an evidence of the contract between insurer and insured.

Answer 2

The correct option is I.

If there is complex language used to word a certain policy document and it has given rise to an ambiguity, it generally will be construed in favour of the insured.

Answer 3

The correct option is I.

Policy document is an evidence of the insurance contract.

Answer 4

The correct option is III.

The First Premium Receipt is the evidence that the policy contract has begun.

Answer 5

The correct option is IV.

For the subsequent premiums received by the insurance company after the first premium, the company will issue renewal premium receipt.

Answer 6

The correct option is I.

If the insured person loses the original life insurance policy document, the insurance company will issue a duplicate policy without making any changes to the contract.

Answer 7

The correct option is II.

The policy document has to be signed by a competent authority and should be stamped according to the Indian Stamp Act.

Answer 8

The correct option is I.

Policy schedule forms the first part of a standard insurance policy document.

Answer 9

The correct option is III.

The standard provisions section of an insurance policy document will have information on the rights and privileges and other conditions, which are applicable under the contract.

Answer 10

The correct option is IV.

“A clause precluding death due to pregnancy for a lady who is expecting at the time of writing the contract” will be included in specific policy provisions section of a standard policy document.

CHAPTER 14

DOCUMENTATION - POLICY CONDITION - II

Test Yourself 1

Under what circumstances would the policyholder need to appoint an appointee?

- I. Insured is minor
- II. Nominee is a minor
- III. Policyholder is not of sound mind
- IV. Policyholder is not married

Answers to Test Yourself

Answer 1

The correct option is II.

Where the nominee is a minor, the policyholder needs to appoint an appointee.

Self-Examination Questions

Question 1

Which of the below statement is false with regards to nomination?

- I. Policy nomination is not cancelled if the policy is assigned to the insurer in return for a loan
- II. Nomination can be done at the time of policy purchase or subsequently
- III. Nomination can be changed by making an endorsement in the policy
- IV. A nominee has full rights on the whole of the claim

Question 2

In order for the policy to acquire a guaranteed surrender value, for how long must the premiums be paid as per law?

- I. Premiums must be paid for at least 2 consecutive years
- II. Premiums must be paid for at least 3 consecutive years
- III. Premiums must be paid for at least 4 consecutive years
- IV. Premiums must be paid for at least 5 consecutive years

Question 3

When is a policy deemed to be lapsed?

- I. If the premiums are not paid on due date
- II. If the premiums are not paid before the due date

- III. If the premium has not been paid even during days of grace
- IV. If the policy is surrendered

Question 4

Which of the below statement is correct with regards to grace period of an insurance policy?

- I. The standard length of the grace period is one month.
- II. The standard length of the grace period is 30 days.
- III. The standard length of the grace period is one month or 30 days.
- IV. The standard length of the grace period is one month or 31 days.

Question 5

What will happen if the policyholder does not pay the premium by the due date and dies during the grace period?

- I. The insurer will consider the policy void due to non-payment of premium by the due date and hence reject the claim
- II. The insurer will pay the claim and waive off the last unpaid premium
- III. The insurer will pay the claim after deducting the unpaid premium
- IV. The insurer will pay the claim after deducting the unpaid premium along with interest which will be taken as 2% above the bank savings interest rate

Question 6

During the revival of a lapsed policy, which of the below aspect is considered most significant by the insurance company? Choose the most appropriate option.

- I. Evidence of insurability at revival
- II. Revival of the policy leading to increase in risk for the insurance company
- III. Payment of unpaid premiums with interest
- IV. Insured submitting the revival application within a specified time frame

Question 7

For an insurance policy nomination is allowed under _____ of the Insurance Act, 1938.

- I. Section 10
- II. Section 38
- III. Section 39
- IV. Section 45

Question 8

Which of the below statement is incorrect with regards to a policy against which a loan has been taken from the insurance company?

- I. The policy will have to be assigned in favour of the insurance company

- II. The nomination of such policy will get cancelled due to assignment of the policy in favour of the insurance company
- III. The nominee's right will be affected to the extent of the insurer's interest in the policy
- IV. The policy loan is usually limited to a percentage of the policy's surrender value

Question 9

Which of the below statements is incorrect with regards to assignment of an insurance policy?

- I. In case of Absolute Assignment, in the event of death of the assignee, the title of the policy would pass to the estate of the deceased assignee.
- II. The assignment of a life insurance policy implies the act of transferring the rights, title and interest in the policy (as property) from one person to another.
- III. It is necessary that the policyholder must give notice of assignment to the insurer.
- IV. In case of Absolute Assignment, the policy vests absolutely with the assignee till maturity, except in case of death of the insured during the policy tenure, wherein the policy reverts back to the beneficiaries of the insured.

Question 10

Which of the below alterations will be permitted by an insurance company?

- I. Splitting up of the policy into two or more policies
- II. Extension of the premium paying term
- III. Change of the policy from with profit policy to without profit policy
- IV. Increase in the sum assured

Answers to Self-Examination Questions

Answer 1

The correct option is IV.

A nominee does not have any right to whole (or part) of the claim.

Answer 2

The correct option is II.

In order for the policy to acquire a guaranteed surrender value, premiums must be paid for at least 3 consecutive years.

Answer 3

The correct option is III.

If the premium has not been paid even during days of grace, the policy is deemed to be lapsed.**Answer 4**

The correct option is IV.

The standard length of the grace period is one month or 31 days.

Answer 5

The correct option is II.

If the policyholder does not pay the premium by the due date and dies during the grace period, the insurer will pay the claim after deducting the unpaid premium.

Answer 6

The correct option is I.

During the revival of a lapsed policy, evidence of insurability at revival is considered as the most significant aspect by the insurance company.

Answer 7

The correct option is III.

For an insurance policy nomination is allowed under Section 39 of the Insurance Act, 1938.

Answer 8

The correct option is II.

Option II is incorrect.

With regards to a policy against which a loan has been taken from the insurance company, the nomination will NOT get cancelled due to assignment of the policy in favour of the insurance company.

Answer 9

The correct option is IV.

Option IV is incorrect.

In case of Absolute Assignment, the policy vests absolutely with the assignee till maturity. In the event of death of the insured during the policy tenure, the policy will **NOT** revert back to the beneficiaries of the insured. The assignee will be entitled to policy benefits.

Answer 10

The correct option is I.

An alteration that involves splitting up of the policy into two or more policies is permitted.

CHAPTER 15

UNDERWRITING

Test Yourself 1

Which of the following cases is likely to be declined or postponed by a life insurer?

- I. Healthy 18 year old
- II. An obese person
- III. A person suffering from AIDS
- IV. Housewife with no income of her own

Test Yourself 2

Which of the following is an example of moral hazard?

- I. Stunt artist dies while performing a stunt
- II. A person drinking copious amounts of alcohol because he is insured
- III. Insured defaulting on premium payments
- IV. Proposer lying on policy document

Test Yourself 3

Why is heredity history of importance in medical underwriting?

- I. Rich parents have healthy kids
- II. Certain diseases can be passed on from parents to children
- III. Poor parents have malnourished kids
- IV. Family environment is a critical factor

Answers to Test Yourself

Answer 1

The correct option is III.

A person suffering from AIDS is most likely to be declined life insurance cover.

Answer 2

The correct option is II.

A person drinking copious amounts of alcohol because he is insured is an example of moral hazard.

Answer 3

The correct option is II.

Certain diseases can be passed on from parents to children and hence heredity history needs to be considered in medical underwriting.

Self-Examination Questions

Question 1

Which of the following denotes the underwriter's role in an insurance company?

- I. Process claims
- II. Decide acceptability of risks
- III. Product design architect
- IV. Customer relations manager

Question 2

Which of the following is not an underwriting decision?

- I. Risk acceptance at standard rates
- II. Declinature of risk
- III. Postponement of risk
- IV. Claim rejection

Question 3

Which of the following is not a standard age proof?

- I. Passport
- II. School leaving certificate
- III. Horoscope
- IV. Birth certificate

Question 4

Which of the following condition will affect a person's insurability negatively?

- I. Daily jogs
- II. Banned substance abuse
- III. Lazy nature
- IV. Procrastination

Question 5

Under what method of underwriting does an underwriter assign positive rating points for all negative or adverse factors (negative points for any positive or favourable factors)?

- I. Judgment
- II. Arbitrary
- III. Numerical rating
- IV. Single step

Question 6

Under risk classification, _____ consist of those whose anticipated mortality corresponds to the standard lives represented by the mortality table.

- I. Standard lives
- II. Preferred risks
- III. Sub-standard lives
- IV. Declined lives

Question 7

Amruta is pregnant. She has applied for a term insurance cover. Which of the below option will be the best option to choose for an underwriter to offer insurance to Amruta? Choose the most likely option.

- I. Acceptance at ordinary rates
- II. Acceptance with extra premium
- III. Decline the proposal
- IV. Acceptance with a restrictive clause

Question 8

Which of the below insurance proposal is not likely to qualify under non-medical underwriting?

- I. Savita, aged 26 years, working in an IT company as a software engineer
- II. Mahesh, aged 50 years, working in a coal mine
- III. Satish, aged 28 years, working in a bank and has applied for an insurance cover of Rs. 1 crore
- IV. Pravin, aged 30 years, working in a departmental store and has applied for an endowment insurance plan for a tenure of 10 years

Question 9

Sheena is suffering from acute diabetes. She has applied for an insurance plan. In this case the underwriter is most likely to use _____ for underwriting. Choose the most appropriate option.

- I. Judgment method
- II. Numerical method
- III. Any of the above method since an illness like diabetes does not play a major role in the underwriting process
- IV. Neither of the above method as diabetes cases are rejected outright

Question 10

Santosh has applied for a term insurance policy. His anticipated mortality is significantly lower than standard lives and hence could be charged a lower premium. Under risk classification, Santosh will be classified under _____.

- I. Standard lives
- II. Preferred risks
- III. Substandard lives
- IV. Declined lives

Answers to Self-Examination Questions

Answer 1

The correct option is II.

Underwriter decides acceptability of risks.

Answer 2

The correct option is IV.

Claim rejection is not an underwriting decision.

Answer 3

The correct option is III.

Horoscope is not a standard age proof.

Answer 4

The correct option is II.

Banned substance abuse will affect a person's insurability negatively.

Answer 5

The correct option is III.

Numerical rating method of underwriting assigns positive rating points for all negative or adverse factors (negative points for any positive or favourable factors).

Answer 6

The correct option is I.

Under risk classification, standard lives consist of those whose anticipated mortality corresponds to the standard lives represented by the mortality table.

Answer 7

The correct option is IV.

In Amruta's case, considering her pregnancy, the best option that the underwriter can choose is to offer insurance to Amruta with a restrictive clause. This restrictive clause can be limiting insurance payment in the event of pregnancy related death occurring within say three months of delivery.

Answer 8

The correct option is II.

Mahesh's insurance proposal is not likely to qualify under non-medical underwriting because his age is higher (50 years) and his occupation is more risky as compared to other occupations in software, banking industry etc.

Answer 9

The correct option is I.

When deciding on a complex case like that of Sheena who is suffering from acute diabetes, the underwriter will use the judgment method of underwriting.

Answer 10

The correct option is II.

Under risk classification, Santosh will be classified under preferred risks.

CHAPTER 16

Test Yourself 1

Which of the below statement best describes the concept of claim?
Choose the most appropriate option.

- I. A claim is a request that the insurer should make good the promise specified in the contract
- II. A claim is a demand that the insurer should make good the promise specified in the contract
- III. A claim is a demand that the insured should make good the commitment specified in the agreement
- IV. A claim is a request that the insured should make good the promise specified in the agreement

Answers to Test Yourself

Answer 1

The correct option is II.

A claim is a demand that the insurer should make good the promise specified in the contract.

Self-Examination Questions

Question 1

Given below is a list of policies. Identify under which type of policy, the claim payment is made in the form of periodic payments?

- I. Money-back policy
- II. Unit linked insurance policy
- III. Return of premium policy
- IV. Term insurance policy

Question 2

Mahesh has bought a life insurance policy with a critical illness rider. He has made absolute assignment of the policy in favour of

Karan. Mahesh suffers a heart attack and there is a claim of Rs. 50,000 under the critical illness rider. To whom will the payment be made in this case?

- I. Mahesh
- II. Karan
- III. The payment will be shared equally by Mahesh and Karan
- IV. Neither of the two because Mahesh has suffered the heart attack but the policy is assigned in favour of Karan.

Question 3

Praveen died in a car accident. The beneficiary submits documents for death claim. Which of the below document is an additional document required to be submitted in case of accidental death as compared to natural death.

- I. Certificate of burial or cremation
- II. Treating physician's certificate
- III. Employer's certificate
- IV. Inquest Report

Question 4

Which of the below death claim will be treated as an early death claim?

- I. If the insured dies within three years of policy duration
- II. If the insured dies within five years of policy duration
- III. If the insured dies within seven years of policy duration
- IV. If the insured dies within ten years of policy duration

Question 5

Given below are some events that will trigger survival claims. Identify which of the below statement is incorrect?

- I. Claim paid on maturity of a term insurance policy
- II. An instalment payable upon reaching the milestone under a money-back policy
- III. Claim paid for critical illnesses covered under the policy as a rider benefit
- IV. Surrender value paid on surrender of an endowment policy by the policyholder

Question 6

A payment made under a money-back policy upon reaching a milestone will be classified under which type of claim?

- I. Death claim
- II. Maturity claim
- III. Periodical survival claim
- IV. Surrender claim

Question 7

Shankar bought a 10 year Unit Linked Insurance Plan. If he dies before the maturity of the policy which of the below will be paid?

- I. Lower of sum assured or fund value
- II. Higher of sum assured or fund value
- III. Premiums paid will be returned with 2% higher interest rate as compared to a bank's savings deposit
- IV. Surrender value

Question 8

Based on classification of claims (early or non-early), pick the odd one out?

- I. Ramya dies after 6 months of buying a term insurance plan
- II. Manoj dies after one and half years of buying a term insurance plan
- III. David dies after two and half years of buying a term insurance plan
- IV. Pravin dies after five and half years of buying a term insurance plan

Question 9

Given below is a list of documents to be submitted for a normal death claim by all beneficiaries in the event of death of life insured. Pick the odd one out which is additionally required to be submitted only in case of death by accident.

- I. Inquest report
- II. Claim form
- III. Certificate of burial or cremation
- IV. Hospital's certificate

Question 10

As per IRDAI (Protection of Policyholders Interests) Regulations, 2002, a claim under a life policy shall be paid or be disputed, within 30 days from the date of receipt of all relevant papers and clarifications required.

- I. 7 days
- II. 15 days

III. 30 days

IV. 45 days

Answers to Self-Examination Questions

Answer 1

The correct option is I

In case of a money-back policy the claim payment is made in the form of periodic payments.

Answer 2

The correct option is II

In this case the entire payment of Rs. 50,000 will be made to Karan as the policy has been assigned in favour of Karan on an absolute basis.

Answer 3

The correct option is IV

Documents like claim form by nominee, Certificate of burial or cremation, Treating physician's certificate, Hospital's certificate, Employer's certificate etc. are required to be submitted in case of natural death as well as accidental death.

First Information Report (FIR), Inquest Report, Post-Mortem Report, Final Report etc. are additional documents required to be submitted in case of accidental death as compared to natural death.

Answer 4

The correct option is I

If the insured dies within three years of policy duration, the death claim will be treated as early death claim.

Answer 5

The correct option is I

Option I is incorrect. There is no claim paid on maturity of a term insurance policy.

Answer 6

The correct option is III

A payment made under a money-back policy upon reaching a milestone will be classified under periodic survival claim.

Answer 7

The correct option is II

If Shankar dies before the maturity of the ULIP policy, higher of sum assured or fund value will be paid.

Answer 8

The correct option is IV

Option IV is the odd one out because it will be treated as a non-early claim. Option I, II and III will be treated as early claims.

Answer 9

The correct option is I

Inquest report is additionally required to be submitted in case of death by accident. The other documents like claim form, certificate of burial or cremation, hospital's certificate are required to be submitted by all beneficiaries in the event of death of life insured

Answer 10

The correct option is III

As per IRDAI (Protection of Policyholders Interests) Regulations, 2002, a claim under a life policy shall be paid or be disputed, within 30 days from the date of receipt of all relevant papers and clarifications required.