# Final Test – Inside Insurance Risk Management

*The Final Test is now comprised of a question bank that includes 20 questions (all 20 questions are included below for testing purposes). Each time the Final Test module is entered, only 10 of the 20 questions will be included in the Final Test. The 10 questions pulled into the Final Test are randomized. In addition the question order and the answers to each question are also randomized. Correct answers for all questions are in bold below.*

## Course Objectives

1. Recognize risks facing insurance companies **(A)**
2. Identify techniques used to manage these risks **(B)**

## Question Bank for Objective #1

### #1a

**Which risk refers to an event resulting in sudden and severe losses involving large** **numbers of insureds and claims with high monetary amounts? Select the correct answer.**

**Catastrophe risk**

Underwriting risk

Reinsurance risk

Disaster risk

### #2a

**Which risk does an insurance company expose itself to when it issues an insurance contract with a premium that is too low for the amount of risk assumed? Select the correct answer.**

**Underwriting risk**

Issuance risk

Operational risk

Contract risk

### #3a

**What are the components of market risk? Select all that apply.**

**Underwriting risk**

**Interest rate risk**

Reinsurance risk

**Currency risk**

### #4a

**What are the components of underwriting risk? Select all that apply.**

**Pricing risk**

**Concentration risk**

Liquidity risk

Catastrophe risk

**Persistency risk**

### #5a

**An insurance company employee paying a claim to the wrong policyholder is an example of which type of risk? Select the correct answer.**

Liquidity risk

Underwriting risk

**Operational risk**

Regulatory risk

### #6a

**Which risk is an insurance company exposed to if its policy premiums terminate before the expenses associated with those policies are recovered? Select the correct answer.**

**Persistency risk**

Concentration risk

Renewal risk

Pricing risk

### #7a

**Which is an example of political risk for insurance companies? Select the correct answer.**

**Regulation of insurance premiums**
Decrease in office rental prices
Increase in public transportation fares
Expansion of health care coverage

### #8a

**What is the primary purpose of Catastrophe Excess of Loss Cover (CatXL)? Select the correct answer.**

**To protect insurance companies from losses due to localized catastrophes**

To provide health insurance coverage in disaster-prone areas
To eliminate the need for reinsurance in high-risk zones

To prevent governments from regulating catastrophe insurance rates

### #9a

**Why are insurance companies particularly susceptible to investment risk? Select the correct answer.**

 **They rely heavily on investment income to pay future benefits**
They are not allowed to diversify their investments
They only invest in high-risk assets like derivatives
They do not consider investment returns when pricing their products

### #10a

**What is an example of concentration risk in the insurance industry? Select the correct answer.**

**The risk of having too many insureds from a specific subset of customers**The risk of investing too much in a single asset class
The risk of policyholders canceling their insurance policies early
The risk of natural disasters affecting multiple insured properties at once

### #11a

**What is market risk in the insurance industry? Select the correct answer.**

**The risk that changes in market conditions will negatively impact profitability**
The risk that policyholders will file more claims than expected
The risk of fraud occurring within an insurance company
The risk that an insurance company will invest only in low-risk assets

## Question Bank for Objective #2

### #12 (1b)

**Which risk are life insurance companies managing when using an asset-liability matching strategy? Select the correct answer.**

**Liquidity risk**

Interest rate risk

Investment risk

Pricing risk

### #13 (2b)

**Which financial instrument do most life insurance companies hold a large portion of their investment portfolios in? Select the correct answer.**

**Fixed income instruments**

Stocks

Commodities

Derivatives

### #14 (3b)

**Why do insurance companies limit their losses by purchasing reinsurance? Select the correct answer.**

**To reduce underwriting risk**

To reduce currency risk

To reduce investment risk

To reduce interest rate risk

### #15 (4b)

**How do insurance companies manage regulatory and political risk? Select the correct answer.**

Establish decentralized compliance units

**Establish economic analysis groups**

Perform audits of internal controls

Perform reviews of insurance contracts

### #16 (5b)

**What is one way insurance companies manage fraud risk? Select the correct answer.**

**Using claims analytics to identify and analyze sources of fraud**
Ignoring fraudulent claims to avoid investigation costs
Allowing fraudulent claims to be paid without scrutiny
Prohibiting customers from reporting suspected fraud

### #17 (6b)

**What is the primary goal of risk selection when managing underwriting risk? Select the correct answer.**

**To place applicants in the appropriate risk category to ensure proper pricing**
To reject high-risk applicants and only insure low-risk individuals
To randomly assign applicants to different risk categories
To charge all applicants the same premium regardless of risk level

### #18 (7b)

**What role do fraud bureaus play in the management of insurance fraud? Select the correct answer.**

**They collect and share information on fraud to help prevent and prosecute it**
They provide financial compensation to insurance companies affected by fraud
They offer training programs to insurance companies on how to avoid fraud
They investigate individual fraud cases without collaborating with insurance companies

### #19 (8b)

**What is the role of centralized compliance units in insurance companies? Select the correct answer.**

**To ensure compliance with regulations and take preventive and remedial action**
To create new insurance products without regulatory approval
To focus on marketing and sales strategies
To handle customer service issues related to insurance claims

### #20 (9b)

**How do insurance companies typically manage currency risk? Select the correct answer.**

**By limiting exposure to foreign currencies**
By investing exclusively in domestic assets
By avoiding any foreign operations or subsidiaries
By charging higher premiums for foreign currency policies