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Important Insurance and Financial Market Awareness Questions for LIC AAO 2019 Exam

Insurance and FMA Quiz 5

Directions: Read the following questions carefully and choose the right answer.

1. What is the aim of transferring the risk of a n individual to an insurer?

- A. To have peace of mind and plan ahead.
- B. So that the individual can undertake risky activities.
- C. To profit in case a loss causing event occurs.
- D. To be able to ignore the risks facing the assets.
- E. None of the above

2. Which of the following statements is true?

- A. Insurance transfers the risk of one person to another person.
- B. Insurance works on the principle of sharing the losses of a 'many' by a few.
- C. Insurance works on the principle of sharing the losses of a 'few' by 'many'.
- D. Insurance works on the method of transferring the gains of a few to the many.
- E. None of the above

3. Who developed the concept of Human Life Value?

- A. Prof. Hubener
- B. Prof. Nanajing
- C. Prof. Abneto
- D. Prof. Loreto
- E. None of the above

4. Which of the following does NOT decrease the value of human life as an asset?

- A. Living too long B. Dying too early C. Living with disability
D. Living a normal life E. None of the above

5. The premium that stays stable over the life of the insurance policy and does not increase with age is known as –

- A. Level premium B. Elevated premium C. Risk Premium
D. Office premium E. Regular premium

6. The premiums collected are held in trust by the insurance company and the amount so collected is called a –

- A. Back up B. Super annuation fund C. Reserve
D. Trust Fund E. None of the above

7. The saving component of the level premium is known as –

- A. Term component B. Protection component
C. Cash component D. Risk component
E. None of the above

8. The adage- do not put all your eggs in one basket- is also known as –

- A. Mutuality B. Diversification C. Value ascertain
D. Investment E. Insurance

9. Which of the following is not a part of life insurance?

- A. Risk B. Contract C. Asset

D. Mutuality

E. All are part

10. Which of the following is true about indemnity?

- A. The aim is to place the insured in the same financial condition as he was before the loss making event.
- B. The aim is to profit out of the loss making event.
- C. The aim is to get the same asset back in the same condition.
- D. The aim is to buy a new asset with the money.
- E. None of the above



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Correct answers:

1	2	3	4	5	6	7	8	9	10
A	C	A	D	A	C	D	B	E	A

Explanations:

1. When transferring risk to the insurer, the aim is not so that the insured can indulge in risky acts or ignore the risks and become careless. The aim is also not to make profits out of a loss causing event.

Only Option A is correct here as risk transfer enables us to plan ahead without fear.

Hence, option A is correct.

2. Statement I: It transfers the risk from one person to an insurer (a company).

Statement II: This is opposite of what is correct.

Statement IV: The aim of insurance is not to pass the gains from one to another.

Statement III is correct.

Hence, option C is correct.

3. The HLV concept considers human life as a kind of property or asset that earns an income. It thus measures the value of human life based on an individual's expected net future earnings. Net earnings means income a person expects to earn each year in the future, less the amount he would spend on self. It thus indicates the economic loss a

family would suffer if the wage earner were to die prematurely. These earnings are capitalised, using an appropriate interest rate to discount them.

It was developed by Prof. Hubener.

Hence, option A is correct.

4. Options A, B and C decrease the value of a human life and are incorrect.

Hence, option D is correct.

5. The level premium is a premium fixed such that it does not increase with age but remains constant throughout the contract period. This means that premiums collected in early years would be more than the amount needed to cover death claims of those dying at these ages, while premiums collected in later years would be less than what is needed to meet claims of those dying at the higher ages. The level premium is an average of both.

Hence, option A is correct.

6. Premiums collected in early years of the contract are held in trust by the insurance company for the benefit of its policyholders. The amount so collected is called a Reserve.

Hence, option C is correct.

7. The level premium has two components.

i. The first is known as the term or protection component, consisting of that portion of premium actually needed to pay the cost of the risk.

ii. The second is known as the cash value element. It is made up of accumulated excess payments of the policyholder. It constitutes the savings component.

Hence, option D is correct.

- 8.** Under diversification the funds are spread out among various assets (placing the eggs in different baskets). Under diversification we have funds flowing from one source to many destinations.

Hence, option B is correct.

- 9.** The following elements are part of the Life Insurance industry:

Risk
Contract
Asset
Mutuality

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Hence, option E is correct.

- 10.** The principle of indemnity states that the insured would be compensated for the amount of loss he has suffered without making any profit. This corresponds to option A.

Hence, option A is correct.



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