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IIC Principles and Practice of Insurance Sample Questions (Q72-Q77):

NEW QUESTION # 72

Which peril of operating a business is insurable?

- A. Product obsolescence
- B. Under-capitalization
- C. **Cybersecurity**
- D. Mismanagement

Answer: C

Explanation:

To be insurable, a peril must be fortuitous, measurable, and not within the direct control of the insured.

Cybersecurity risks meet these criteria, which is why insurers offer cyber liability and data breach insurance.

These policies cover hacking, ransomware, privacy breaches, and business interruption caused by cyber events.

Mismanagement (B) is uninsurable because it results from internal decision failure.

Under-capitalization (C) is a business failure, not a fortuitous peril.

Product obsolescence (D) is a predictable business cycle risk and cannot be insured.

Thus, the only insurable peril listed is A: Cybersecurity.

NEW QUESTION # 73

Dominika's house sustains a fire resulting in a \$500,000 total loss to the house and contents. Some pieces of furniture are salvageable and valued at \$4,000 by the insurer. Dominika chooses to keep these items for her next home. Dominika's policy has a guaranteed replacement cost clause with a limit of \$500,000 and a deductible of \$1,000. What settlement amount will Dominika recover from the loss?

- A. **\$495,000**
- B. \$496,000
- C. \$500,000
- D. \$499,000

Answer: A

Explanation:

With a guaranteed replacement cost policy, the insurer agrees to pay the full cost of replacing the damaged or destroyed property (subject to conditions), even if that amount approaches or, in some forms, exceeds the stated limit. Here, the total replacement cost of the loss is \$500,000.

However, some furniture is salvageable and valued at \$4,000. Since Dominika elects to keep this salvage, she is effectively retaining part of the value of the damaged property. To maintain the principle of indemnity and avoid overpayment, the insurer deducts the salvage value from the total amount they would otherwise pay.

Step-by-step:

Replacement cost of loss: \$500,000

Less salvage value retained by insured: \$4,000

Subtotal: \$496,000

Less deductible: \$1,000

Net settlement: \$495,000

Therefore, Dominika will recover \$495,000, making Option A correct.

NEW QUESTION # 74

Ivana is in an auto accident. The agreed market value of her vehicle is \$17,000.

Her policy deductible is \$1,500.

A wrecking company offers \$3,000 for the salvage.

Ivana chooses to keep the salvage.

What amount will Ivana receive?

- A. \$14,000
- B. \$17,000
- C. **\$12,500**
- D. \$15,500

Answer: C

Explanation:

Comprehensive Explanation (150-250 words):

When a vehicle is deemed a total loss, the insurer typically pays the actual cash value (ACV) minus the deductible. If the insured decides to keep the salvage, the salvage value must also be deducted from the settlement, because the insured retains something of monetary worth.

The formula for this situation is:

Settlement = ACV / Deductible / Salvage Value

Settlement = ACV / Deductible / Salvage Value

Using Ivana's numbers:

ACV = \$17,000

Deductible = \$1,500

Salvage value = \$3,000

$17,000 / 1,500 / 3,000 = 12,500$ Therefore, Ivana receives \$12,500, and she keeps the damaged vehicle, which she values for personal reasons.

Option B (\$14,000) ignores the salvage deduction.

Option C (\$15,500) ignores the deductible.

Option D (\$17,000) ignores both deductible and salvage, which is not permitted.

The only correct settlement amount is \$12,500.

NEW QUESTION # 75

Which legal term describes the time in which a claim may be brought by the policyholder?

- A. Non-waiver
- B. Waiver
- C. Release
- D. Prescription

Answer: D

Explanation:

Prescription refers to the legally defined period during which an insured is permitted to initiate legal action to enforce a claim under the insurance contract. Once the prescriptive period expires, the insured loses the legal right to pursue the claim, even if the claim itself is otherwise valid. This protects insurers from indefinite liability and encourages timely reporting and settlement of claims.

A waiver is the voluntary relinquishment of a known right. A release is a document signed by the insured surrendering further claims, usually after settlement. A non-waiver agreement preserves the insurer's right to investigate a claim without admitting liability. None of these terms relate to the legal time limit for bringing an action. Therefore, the correct term describing the time frame for commencing legal proceedings is prescription.

NEW QUESTION # 76

What is the effect of perils and hazards on insurance rates for the underwriter?

- A. An underwriter may use a higher rate if a hazard increases the likelihood of a loss by an insured peril
- B. The rate is determined by the law of large numbers for the hazards listed on the policy
- C. An underwriter may increase the rate if the insured event is likely to increase the hazard
- D. The rate is calculated by multiplying the premium by the amount insured for each peril

Answer: A

Explanation:

Hazards are conditions that increase the likelihood or severity of a loss caused by an insured peril.

Underwriters assess hazards (physical, moral, and morale hazards) to determine whether a risk is acceptable and at what price.

If hazards make an insured peril more likely to occur, the underwriter will increase the rate to reflect higher expected losses. This aligns exactly with option C.

Option A is close but incorrectly states "insured event," not "insured peril," and is less precise.

Option B misinterprets the law of large numbers; it applies to loss predictability, not hazard listing.

Option D misunderstands rating—rates are not calculated by multiplying premium by insured value. Thus, the correct statement is C.

NEW QUESTION # 77

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