



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

RISK MANAGEMENT IN BANKING AND INSURANCE (PAPER - 20B)

MCQ BANK

| SL NO | QUESTIONS | OPTION 1 | OPTION 2 | OPTION 3 | OPTION 4 |
|-------|---|--|---|--|--------------------------------|
| 1 | When the risk of losses in on- or off-balance sheet positions arising from movement in market prices, it is called as _____. | Operational Risk | Market Risk | Liquidity Risk | Account Risk |
| 2 | The risk that arises from the possibility of non-payment of loans by the borrowers is known as- | Credit Risks | Market Risks | Moral Hazard | Business Risk |
| 3 | The major component of Market risk is _____. | Interest rate risk | Equity risk | Commodity risk | All of the above |
| 4 | When a bank's image and public standing is in doubt and leads to the public's loss of confidence in a bank, it is called as _____. | Reputational risk | Moral Hazard | Operational risk | None of the above |
| 5 | Legal Risk is known as _____. | When the actions can lead to the entire financial system coming to a standstill. | When there is a financial loss to the bank arising from legal suits filed against the bank or by a bank for applying a law wrongly. | When a bank chooses the wrong strategy or follows a long-term business strategy which might lead to its failure. | All of the above |
| 6 | Bonds Are _____. | Fixed Income Securities. | Permanent Income Securities. | Fluctuating Income Securities. | Matured Income Securities |
| 7 | Zero Coupon Bond Makes: | No Coupon Payment | Interest Payment Every Month | Is Not Traded | Has No Maturity Date |
| 8 | YTM stands for: | Yield To Maturity | Yield To Money | Yield To Market | Yield To Motive |
| 9 | Normal Yield Curve is: | Upward Sloping | Downward Sloping | Straight Line | All of the above |
| 10 | Swaptions are: | Options On Swaps | Options And Futures | Options On Forwards | Options On MIBOR |
| 11 | Price Sensitivities are: | Lower For Longer Tenor Bonds | Same For All Tenor Bonds | Higher For Longer Tenor Bonds | Higher For Shorter Tenor Bonds |
| 12 | A Safe Haven for investors money is: | Equity Market | Debt Market | Speculative Market | All of the above |
| 13 | A fall in interest rates will make prices of Government Securities: | Go Down | Go Up | Remain Unchanged | None of these |
| 14 | IRF Stands For: | Interest Rate Futures | Interest Rate Forwards | Interest Rate Fixed | Interest Rate Fluctuating |
| 15 | To hedge the interest rate risk on \$4 million of Treasury bonds with \$100,000 futures contracts, you would need to purchase: | 4 contracts. | 20 contracts. | 25 contracts. | 40 contracts. |
| 16 | 2. Rise in interest rates _____ the market value of that asset or liability. Conversely falling interest rates _____ the market value of assets or liabilities. | Increases, Decreases. | Decreases, Increases. | Both Ways. | None of the above. |
| 17 | The economic value of a bank can be viewed as the present value of the bank's expected _____. | Cash Flows. | Net Cash Flows. | Gross Cash Flows. | None of the above. |
| 18 | Proliferation of NPA results in increasing _____. | It is not a maturity mismatch. | Maturity mismatch. | Sometimes it is a mismatch. | None of the above. |
| 19 | The risk arises when the technology system may got malfunction is classified as _____. | System Risk. | Technology Risk. | Operational Risk. | Support Risk. |



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| 20 | The risk which arises from insufficient Capital available to balance the sudden decrease in assets value is classified as _____. | Insolvency Risk. | Solvency Risk. | Balanced Risk. | Unbalanced Risk. |
| 21 | Which of the following is not a type of credit risk? | Default risk. | Credit spread risk. | Intrinsic risk. | Basis risk. |
| 22 | Risk of a portfolio with overexposure in the steel sector will be _____. | More than systematic risk. | Equal to intrinsic risk. | Less than intrinsic risk. | None of these. |
| 23 | The risk that arises due to worsening of credit quality is: | Intrinsic risk. | Credit spread risk. | Portfolio risk. | Counterparty risk. |
| 24 | The model that combines five financial ratios using reported accounting information and equity values to produce an objective measure of borrower's financial health is _____. | Altman's Z Score. | 'Credit Metrics'. | Credit Risk+. | None of the above. |
| 25 | A transaction where financial securities are issued against the cash flow generated from a pool of assets is called _____. | Securitization. | Credit Default Swaps. | Credit Linked Notes. | Total Return Swaps. |
| 26 | The objective of liquidity management is to _____. | Ensure profitability. | Ensure liquidity. | Either of two. | Both. |
| 27 | Banks need liquidity to _____. | Meet deposit withdrawal. | Fund loan demands. | Both of them. | None of them. |
| 28 | Who formulates BASEL guidelines? | World Bank | IMF | G20 group of governors | BCBS |
| 29 | When did India started implementing BASEL-I guidelines? | 1988 | 1990 | 1991 | 1992 |
| 30 | Which of the following is the correct definition of Probability of default (PD)? | It measures the remaining economic maturity of the exposure | It is the estimated amount outstanding in a loan commitment if default occurs | It measures the proportion of the exposure that will be lost if Default occurs | It measures the likelihood that the borrower will default over a given time horizon |
| 31 | Which of the following is the correct definition of Loss Given Default (LGD)? | It measures the remaining economic maturity of the exposure | It is the estimated amount outstanding in a loan commitment if default occurs | It measures the proportion of the exposure that will be lost if Default occurs | It measures the likelihood that the borrower will default over a given time horizon |
| 32 | Which of the following is the correct definition of Exposure at Default (EAD)? | It measures the remaining economic maturity of the exposure | It is estimated amount outstanding in a loan commitment if default occurs | It measures the proportion of the exposure that will be lost if Default occurs | It measures the likelihood that the borrower will default over a given time horizon |
| 33 | In line with BASEL-II guidelines, what was the minimum percentage CRAR prescribed by Reserve Bank of India? | 9% | 8% | 7% | 6% |
| 34 | Which of the following is/are risks face by the bank? | Credit Risk | Market Risk | Income Risk | (a) and (b) |



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|-------|--|--|---|--|---|
| 35 | What is the effect on the capital requirement of a bank if it takes exposure to riskier assets? | More capital is required | Less capital is required | No change in capital requirement | None of these |
| 36 | A sovereign credit rating is the credit rating of a, _____ i.e., a national government. | Sovereign entity. | Multinational company. | Banks. | Firm. |
| 37 | The risk that a government may default on its debt obligation _____. | Political risk. | Sovereign risk. | Transfer risk. | Transaction risk. |
| 38 | A floating exchange rate _____. | Is determined by the national governments involved. | Remains extremely stable over a long period. | Is determined by the actions of central banks. | Is allowed to vary accordingly to market forces. |
| 39 | In India, settlement risk is largely mitigated by settlements through _____. | Clearing Corporation of India (CCIL). | FIMMDA. | Both of the above. | None of the above. |
| 40 | _____ risk arises if a country suddenly suspends or imposes a moratorium on foreign payments because of Balance of payments or other problems. | Mismatch risk | Transaction risk | Open position risk | Sovereign risk |
| 41 | If a firm has a stock-based insolvency in both book and market value terms and liquidates: | The payoff will not be 100% to all investors. | The unsecured creditors are likely to get less than full value. | The equity holders typically should receive nothing. | All of the above. |
| 42 | Bankruptcy reorganizations are used by management to: | Forestall the inevitable liquidation in all cases | Provide time to turn the business around. | Allow the courts time to set up an administrative structure. | All of the above. |
| 43 | Financial distress can be best described by which of the following situations in which the firm is forced to take corrective action. | Cash payments are delayed to creditors. | The market value of the stock declines by 10%. | The firm's operating cash flow are insufficient to pay current obligations. | Cash distributions are eliminated because the board of directors considers the surplus account to be low. |
| 44 | Which of the following is not a type of risk in the Banking Sector? | Credit Risk | Operational Risk | Market Risk | Account Risk |
| 45 | Operational Risk is the risk of -----. | When borrowers or counterparties fail to meet contractual obligations. | The unpredictability of equity markets, commodity prices, interest rates, and credit spreads. | Loss due to errors, interruptions, or damages caused by people, systems, or processes. | All of the above |
| 46 | When the risk of losses in on- or off-balance sheet positions arising from movement in market prices, it is called as -----. | Operational Risk | Market Risk | Liquidity Risk | Account Risk |
| 47 | "Payments credited to the wrong account" is an example of which Risk? | Credit Risk | Operational Risk | Market Risk | Liquidity Risk |



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|-------|---|---|----------------------------------|---|--|
| 48 | _____ risk arises because the financial system is one intricate and connected network. | Credit | Operational | Market Risk | Systemic |
| 49 | The major component of Market risk is-----. | Interest rate risk | Equity risk | Commodity risk | All of the above |
| 50 | _____ risk is the potential loss due to changes in the value of a bank's assets or liabilities resulting from exchange rate fluctuations. | Interest rate. | Equity | Foreign exchange. | Commodity |
| 51 | _____ is the oldest form of off balance sheet financing. | leasing | hire purchasing | Joint venture | none of these |
| 52 | In the mid-2000s, a number of banks lost billions of dollars on failing mortgage loans. The risk of such occurrences would be categorized as: | off balance sheet risk | operational risk | credit risk | technology risk |
| 53 | The risk of "insolvency" is basically the risk of: | borrowers not paying off lenders in a timely fashion. | machinery breakdowns | not being able to find a buyer for an asset | asset value falling below liability value |
| 54 | Credit risk that is related to pervasive, economy-wide factors, would be termed: | off balance sheet risk | country risk | systematic risk | firm specific risk |
| 55 | Deposit insurance shifts most of the financial risk of bank failures from depositors to | Borrowers | The bank's creditors | The bank's stockholders | The federal government |
| 56 | The payoffs for financial derivatives are linked to: | securities that will be issued in the future. | the volatility of interest rates | previously issued securities. | government regulations specifying allowable rates of return. |
| 57 | Financial derivatives include: | stocks | bonds | futures | none of the above. |
| 58 | A Letter of Undertaking is an instrument, which allows customers of a bank, to raise: | short-term foreign currency | long-term foreign currency | both | none of these |
| 59 | One very basic example of an unsecured open-end loan commitment: | Credit card | debit card | cash credit | overdraft facility |
| 60 | A bank assesses its operations and activities against a menu of potential operational risk vulnerabilities is called : | Self-Risk Assessment | Risk Mapping | Key Risk Indicators | none of these |
| 61 | A nomination can be made only in favour of: | Parents | Spouse and children | Spouse | Any individual |
| 62 | Select the expanded form of SA as commonly used in life insurance. | Sum Assured | Surrender of Assurance | Supplementary Assurance | Stamp Act |
| 63 | Which product offered by insurance companies that, unlike a pure insurance policy, gives investors both insurance and investment under a single integrated plan? | Money Back Plan | Endowment Plans | Term Insurance Plans | Unit-linked insurance plan |
| 64 | In which Policy, if the policyholder survives till the end of this period, the risk cover lapses, and no insurance benefit payment is made to him/her? | Money Back Plan | Endowment Plans | Term Insurance Plans | Unit-linked insurance plan |
| 65 | In which Policy, the insurer agrees to pay the assured or his nominees a specified sum of money on his death or on the maturity of the policy whichever is earlier? | Money Back Plan | Endowment Plans | Term Insurance Plans | Unit-linked insurance plan |



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|-------|--|------------------------------------|--|--|--|
| 66 | As per the Insurance Act, every insurer has to prepare at the end of financial year: | Balance Sheet | Profit and Loss Account | Revenue Account for each class of Insurance business | All of the above |
| 67 | _____are agents but they can sell policies of several life and non-life insurance companies at a time. | Loss assessors | Brokers | Insure | Insured Insurance Awareness MCQs LIC Assistant Exam 2019 |
| 68 | _____ is a voluntary termination of the contract by the policy holders. | Report | Surrender | Prospectus | Cover note |
| 69 | Which of the following is contract between two insures i.e. original insurer and another insurer? | Premium | Cover note | Reinsurance | Co-insurance |
| 70 | Which of the following involves proportionate sharing of the insurance among more than one insurer? | Premium | Cover note | Reinsurance | Co-insurance |
| 71 | When the amount for which a subject matter is insured is more than its actual value, it is called_____ | Premium | Cover note | Reinsurance | Double Insurance |
| 72 | A person whose risk is insured is called..... | Insured | merchandiser | marketer | Agents |
| 73 | When was life insurance sector nationalized? | 1952 | 1956 | 1986 | 1984 |
| 74 | Risk retention means----- | Saving money to pay for the losses | Accepting and agreeing to finance the loss oneself | Not taking up any activity which is risky | Insuring the risk |
| 75 | Pure risk was grouped: | Property Risk | Personal Risk | Liability risk | All the above |
| 76 | The risk which arises because of change in major economic. Social, cultural and political factors are | Particular Risk | Fundamental Risk | Speculative Risk | Dynamic Risk |
| 77 | Insurance covers..... | Protect assets | Prevents loss | Reduces the impact of loss | Insurances immortality |
| 78 | Choose the correct Option: Statement A: Commercial contracts are subject to the principle of “Caveat Emptor” Statement B: Insurance contracts are also subject to the principle of “Caveat Emptor” | Both statements are correct | Both statements are wrong | Statement A is correct | Statement B is correct |
| 79 | Insurable interest means: Statement A: Legal right to insure. Statement B: Have suffered financial loss. | Both statements are correct | Both statements are wrong | Statement A is correct | Statement B is correct |
| 80 | One of the fundamental principles of life insurance is: | There is an insurer & policyholder | Utmost good faith | Insurable interest | Both b & c |
| 81 | Facts which need to be disclosed: | Facts of common knowledge | Facts which lessen the risks | Facts which everyone is supposed to know in general | Family History |



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| 82 | The duty of disclosure of material facts arises in life insurance: | only during the proposal stage | Only during the policy period if there is a change in risk | Only at the time of renewal | All of the above |
| 83 | _____ increases the frequency of loss. | Peril | Subjective risk | Hazard | Objective risk |
| 84 | _____ hazard increases the probability of loss due to dishonesty or character defects of an insured person. | Moral | Morale | Legal | Physical |
| 85 | Master policy is issued for _____. | Term insurance schemes | permanent insurance | individual insurance | group insurance schemes |
| 86 | Subrogation means _____. | something of monetary value | to make good loss | payment of premium | transfer of rights of an insured to another person |
| 87 | _____ risks happen within a stable environment and are constant over an observed period of time. | Speculative | Pure | Dynamic | Static |
| 88 | Which among the following is not a pure risk? | Personal risk | Property risk | Loss of income risk | Strategic risk |
| 89 | Which of the following method reduces the chance of loss to zero? | Risk Transferring | Risk avoidance | Risk retention | Risk reduction |
| 90 | _____ refers to the manner in which the risk control measures that have been implemented shall be financed. | Risk financing | Risk retention | Risk transfer | Risk sharing |
| 91 | _____ is the most famous tool of risk management. | Certainty risk | Insurance | Loss prevention | Uncertainty risk |
| 92 | _____ is still the most leading channel in India for distributing insurance products. | Brokers | Agency power | Insurance market | National market |
| 93 | An insurance agent represents the _____. | Insured | Insurer | Government | Adjustment bureau |
| 94 | _____ is a whole life policy that insures two lives with the proceeds payable on the second (later) death. | Survivorship life insurance policy | Group life insurance | Joint life insurance | Prepaid insurance |
| 95 | The _____ is formed with four subsidiary companies. | Life insurance Corporation of India | ICICI Prudential Life Insurance Company | General Insurance Corporation of India | Bajaj Allianz General Insurance Company |
| 96 | Which of the following is not a concern of the insurance regulatory framework? | It has to safeguard the interests of the customers. | It has to safeguard the interests of the stakeholders. | It has to ensure the financial soundness of the insurance industry. | It has to help in the healthy growth of the insurance market. |
| 97 | Which of these is not an element of life insurance? | Grace period | Nomination and assignment | Policyholder | Paid-up value Answers: |



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| 8 | YTM stands for: | Yield To Maturity |
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| 12 | A Safe Haven for investors money is: | Debt Market |
| 13 | A fall in interest rates will make prices of Government Securities: | Go Up |
| 14 | IRF Stands For: | Interest Rate Futures |
| 15 | To hedge the interest rate risk on \$4 million of Treasury bonds with \$100,000 futures contracts, you would need to purchase: | 40 contracts. |
| 16 | 2. Rise in interest rates _____ the market value of that asset or liability. Conversely falling interest rates _____ the market value of assets or liabilities. | Decreases, Increases. |
| 17 | The economic value of a bank can be viewed as the present value of the bank's expected _____. | Net Cash Flows. |
| 18 | Proliferation of NPA results in increasing _____. | Maturity mismatch. |
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| 34 | Which of the following is/are risks face by the bank? | (a) and (b) |
| 35 | What is the effect on the capital requirement of a bank if it takes exposure to riskier assets? | More capital is required |
| 36 | A sovereign credit rating is the credit rating of a, _____ i.e., a national government. | Sovereign entity. |
| 37 | The risk that a government may default on its debt obligation _____. | Sovereign risk. |
| 38 | A floating exchange rate _____. | Is allowed to vary accordingly to market forces. |
| 39 | In India, settlement risk is largely mitigated by settlements through _____. | Clearing Corporation of India (CCIL). |
| 40 | _____ risk arises if a country suddenly suspends or imposes a moratorium on foreign payments because of Balance of payments or other problems. | Sovereign risk |
| 41 | If a firm has a stock-based insolvency in both book and market value terms and liquidates: | All of the above. |
| 42 | Bankruptcy reorganizations are used by management to: | Provide time to turn the business around. |
| 43 | Financial distress can be best described by which of the following situations in which the firm is forced to take corrective action. | The firm's operating cash flow are insufficient to pay current obligations. |
| 44 | Which of the following is not a type of risk in the Banking Sector? | Account Risk |
| 45 | Operational Risk is the risk of -----. | Loss due to errors, interruptions, or damages caused by people, systems, or processes. |
| 46 | When the risk of losses in on- or off-balance sheet positions arising from movement in market prices, it is called as -----. | Liquidity Risk |
| 47 | "Payments credited to the wrong account" is an example of which Risk? | Operational Risk |
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| 49 | The major component of Market risk is-----. | All of the above |
| 50 | _____ risk is the potential loss due to changes in the value of a bank's assets or liabilities resulting from exchange rate fluctuations. | Foreign exchange. |
| 51 | _____ is the oldest form of off balance sheet financing. | leasing |
| 52 | In the mid-2000s, a number of banks lost billions of dollars on failing mortgage loans. The risk of such occurrences would be categorized as: | off balance sheet risk |
| 53 | The risk of "insolvency" is basically the risk of: | asset value falling below liability value |
| 54 | Credit risk that is related to pervasive, economy-wide factors, would be termed: | systematic risk |
| 55 | Deposit insurance shifts most of the financial risk of bank failures from depositors to | The federal government |
| 56 | The payoffs for financial derivatives are linked to: | previously issued securities. |
| 57 | Financial derivatives include: | futures. |
| 58 | A Letter of Undertaking is an instrument, which allows customers of a bank, to raise: | short-term foreign currency |
| 59 | One very basic example of an unsecured open-end loan commitment: | Credit card |



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ANSWERS TO MCQ BANK

| SL NO | QUESTIONS | CORRECT ANSWER |
|-------|--|--|
| 60 | A bank assesses its operations and activities against a menu of potential operational risk vulnerabilities is called : | Self-Risk Assessment |
| 61 | A nomination can be made only in favour of: | Any individual |
| 62 | Select the expanded form of SA as commonly used in life insurance. | Sum Assured |
| 63 | Which product offered by insurance companies that, unlike a pure insurance policy, gives investors both insurance and investment under a single integrated plan? | Unit-linked insurance plan |
| 64 | In which Policy, if the policyholder survives till the end of this period, the risk cover lapses, and no insurance benefit payment is made to him/her? | Term Insurance Plans |
| 65 | In which Policy, the insurer agrees to pay the assured or his nominees a specified sum of money on his death or on the maturity of the policy whichever is earlier? | Endowment Plans |
| 66 | As per the Insurance Act, every insurer has to prepare at the end of financial year: | All of the above |
| 67 | _____ are agents but they can sell policies of several life and non-life insurance companies at a time. | Brokers |
| 68 | _____ is a voluntary termination of the contract by the policy holders. | Surrender |
| 69 | Which of the following is contract between two insures i.e. original insurer and another insurer? | Reinsurance |
| 70 | Which of the following involves proportionate sharing of the insurance among more than one insurer? | Co-insurance |
| 71 | When the amount for which a subject matter is insured is more than its actual value, it is called _____ | Double Insurance |
| 72 | A person whose risk is insured is called..... | Insured |
| 73 | When was life insurance sector nationalized? | 1956 |
| 74 | Risk retention means----- | Accepting and agreeing to finance the loss oneself |
| 75 | Pure risk was grouped: | All the above |
| 76 | The risk which arises because of change in major economic. Social, cultural and political factors are | Fundamental Risk |
| 77 | Insurance covers..... | Reduces the impact of loss |
| 78 | Choose the correct Option: Statement A: Commercial contracts are subject to the principle of "Caveat Emptor" Statement B: Insurance contracts are also subject to the principle of "Caveat Emptor" | Statement A is correct |
| 79 | Insurable interest means: Statement A: Legal right to insure. Statement B: Have suffered financial loss. | Both statements are correct |
| 80 | One of the fundamental principles of life insurance is: | Both b & c |
| 81 | Facts which need to be disclosed: | Family History |
| 82 | The duty of disclosure of material facts arises in life insurance: | All of the above |
| 83 | _____ increases the frequency of loss. | Hazard |
| 84 | _____ hazard increases the probability of loss due to dishonesty or character defects of an insured person. | Moral |
| 85 | Master policy is issued for _____. | group insurance schemes |
| 86 | Subrogation means _____. | transfer of rights of an insured to another person |
| 87 | _____ risks happen within a stable environment and are constant over an observed period of time. | Static |
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| 90 | _____ refers to the manner in which the risk control measures that have been implemented shall be financed. | Risk financing |
| 91 | _____ is the most famous tool of risk management. | Insurance |
| 92 | _____ is still the most leading channel in India for distributing insurance products. | Agency power |
| 93 | An insurance agent represents the _____. | Insurer |
| 94 | _____ is a whole life policy that insures two lives with the proceeds payable on the second (later) death. | Survivorship life insurance policy |
| 95 | The _____ is formed with four subsidiary companies. | General Insurance Corporation of India |
| 96 | Which of the following is not a concern of the insurance regulatory framework? | It has to safeguard the interests of the stakeholders. |
| 97 | Which of these is not an element of life insurance? | Policyholder |