

Alberta General Insurance Level 1 Practice Exam (Sample)

Study Guide



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SAMPLE

Questions

- 1. What is an endorsement in an insurance policy?**
 - A. A reduction in premium costs**
 - B. A document that modifies the original policy**
 - C. A type of insurance policy for high-value items**
 - D. The initial coverage offered at the start of the policy**
- 2. What is proportional reinsurance?**
 - A. A flat rate reinsurance contract**
 - B. A reinsurance contract based on flat fees**
 - C. A reinsurance where risk and premiums are shared proportionally**
 - D. A reinsurance where risk is transferred entirely**
- 3. Which of the following is a role not directly fulfilled by the Insurance Bureau of Canada?**
 - A. Consumer outreach**
 - B. Direct consumer insurance sales**
 - C. Climate change advocacy**
 - D. Legal development responses**
- 4. What is the significance of a "grace period" in an insurance context?**
 - A. The time frame for filing a claim**
 - B. The period after a premium due date where coverage is still active**
 - C. The duration of the policy term**
 - D. The time limit for renewing a policy**
- 5. What characterizes a healthy insurance marketplace?**
 - A. Highly competitive pricing only**
 - B. Products that are not readily available**
 - C. Fair treatment of insureds and claimants**
 - D. Only insureds' needs are met**

- 6. What does "a policyholder" refer to?**
- A. The individual or entity that owns an insurance policy**
 - B. A representative of the insurance company**
 - C. A third-party beneficiary of an insurance policy**
 - D. A claims adjuster evaluating insurance applications**
- 7. Which of the following is NOT one of the four main types of general insurance?**
- A. Property**
 - B. Liability**
 - C. Auto**
 - D. Life**
- 8. What is the primary function of the Actuarial Department in an insurance company?**
- A. Investigating insurance claims**
 - B. Setting rates for various classes of insurance**
 - C. Regulating insurer investment**
 - D. Licensing insurance brokers**
- 9. How must a waiver under a policy be expressed?**
- A. In a complicated manner**
 - B. Verbally only**
 - C. Through an implied agreement**
 - D. Clearly and in writing**
- 10. What is a key feature of a person with good character?**
- A. Ability to manipulate others**
 - B. Strong work ethic**
 - C. Desire for personal gain**
 - D. Lack of perseverance**

Answers

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

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Explanations

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1. What is an endorsement in an insurance policy?

- A. A reduction in premium costs
- B. A document that modifies the original policy**
- C. A type of insurance policy for high-value items
- D. The initial coverage offered at the start of the policy

An endorsement in an insurance policy is defined as a document that modifies the original policy. This modification can include adding, removing, or altering coverage or terms within the insurance contract. For example, a homeowner might add an endorsement to cover a new expensive item, or a business might modify liability coverage for specific risks. These endorsements are crucial for ensuring that the policy reflects the current needs and circumstances of the policyholder, providing flexibility and customization to the insurance agreement. In contrast, the other options relate to different aspects of insurance but do not accurately define an endorsement. Reducing premium costs is a financial consideration, while a specific type of policy for high-value items refers to specialized coverage rather than a modification to existing coverage. The initial coverage offered at the start of the policy pertains to the baseline coverage, not any changes made through endorsements.

2. What is proportional reinsurance?

- A. A flat rate reinsurance contract
- B. A reinsurance contract based on flat fees
- C. A reinsurance where risk and premiums are shared proportionally**
- D. A reinsurance where risk is transferred entirely

Proportional reinsurance is a type of reinsurance where the risk and premiums are shared proportionally between the insurer and the reinsurer. This means that both parties share a portion of the risk and receive a corresponding portion of the premiums. Option A and B are incorrect because they mention "flat" rates or fees, which implies a fixed amount rather than a proportional sharing of risk and premiums. Option D is incorrect because it states that the risk is transferred entirely, which is not the case in proportional reinsurance since both parties share the risk.

3. Which of the following is a role not directly fulfilled by the Insurance Bureau of Canada?

- A. Consumer outreach
- B. Direct consumer insurance sales**
- C. Climate change advocacy
- D. Legal development responses

The Insurance Bureau of Canada primarily serves as a national trade association for insurance companies in Canada. While they do engage in consumer outreach and advocate for climate change, they are not involved in direct consumer insurance sales. This role is usually fulfilled by individual insurance companies or brokers. Additionally, while they may be involved in legal developments and responses related to the insurance industry, this is not their main focus or role.

4. What is the significance of a "grace period" in an insurance context?

- A. The time frame for filing a claim**
- B. The period after a premium due date where coverage is still active**
- C. The duration of the policy term**
- D. The time limit for renewing a policy**

The significance of a "grace period" in the context of insurance is that it refers to the time frame following the due date of a premium payment during which the policyholder can still make the payment without losing coverage. This period is crucial because it provides policyholders with flexibility; should they miss the premium payment deadline, they are not immediately penalized or faced with a lapse in coverage. During the grace period, the insurance policy remains active, allowing the insured to still access their benefits should a claim arise. This feature helps in promoting stability and borrower confidence in managing their insurance obligations, emphasizing the insurer's understanding of potential financial difficulties that might delay a payment. In contrast, the other concepts mentioned do not accurately describe a grace period. The time frame for filing a claim refers to the allowed period within which a policyholder must submit a claim after an incident occurs, which is distinct from the grace period's focus on premium payment. The duration of the policy term pertains to the total time the insurance policy is valid, while the time limit for renewing a policy relates to when a policyholder must act to extend their coverage before it terminates. Each of these aspects plays a different role in the overall insurance process but does not define the grace period's

5. What characterizes a healthy insurance marketplace?

- A. Highly competitive pricing only**
- B. Products that are not readily available**
- C. Fair treatment of insureds and claimants**
- D. Only insureds' needs are met**

A healthy insurance marketplace is one where insurance companies treat their insureds and claimants fairly. This means that insurance companies do not try to take advantage of their customers, deny legitimate claims, engage in discriminatory practices, or display any other unethical behavior. Options A, B, and D are not correct as they fail to address the fair treatment of insureds and claimants. Option A only focuses on competitive pricing, which does not guarantee that insureds will be treated fairly. Option B suggests that products should be scarce, which does not benefit customers who need insurance. Option D only takes into account the needs of insureds, disregarding the rights and protection of claimants. In conclusion, a healthy insurance marketplace requires fair treatment of both insureds and claimants.

6. What does "a policyholder" refer to?

A. The individual or entity that owns an insurance policy

B. A representative of the insurance company

C. A third-party beneficiary of an insurance policy

D. A claims adjuster evaluating insurance applications

A policyholder refers to the individual or entity that owns an insurance policy. This person or organization has entered into a contract with the insurance company and is responsible for paying the premiums. The policyholder has rights and responsibilities under the insurance agreement, including the right to make claims, receive benefits, and request changes to the policy. The role of a policyholder is fundamental in insurance transactions, as it establishes the contractual relationship between the insured and the insurer. This fundamental understanding is critical because it defines who is entitled to the coverage and the protections offered by the policy. In contrast, representatives of the insurance company, third-party beneficiaries, and claims adjusters serve different roles and do not own the insurance policy; they may assist in administration, claims processing, or evaluation but do not hold the policyholder rights inherent to the agreements with the insurance provider.

7. Which of the following is NOT one of the four main types of general insurance?

A. Property

B. Liability

C. Auto

D. Life

The choice indicating that "C. Auto" is not one of the four main types of general insurance highlights an essential distinction in the classification of insurance types. The four primary categories of general insurance typically include property, liability, health, and marine insurance. Auto insurance, while a significant and essential coverage type, falls under the umbrella of property insurance since it pertains to the protection of physical assets, in this case, vehicles. It's important to recognize that life insurance is an entirely separate domain and is not considered a type of general insurance. Life insurance primarily focuses on the financial protection of individuals and their beneficiaries in the event of death, thereby distinguishing it from general insurance, which relates to protecting against loss or damage to assets and liabilities. In summary, classifying auto insurance as not one of the four primary types emphasizes the need to understand the broader categories within the insurance landscape. The correct identification of these types aids in navigating the complexities of insurance offerings effectively.

8. What is the primary function of the Actuarial Department in an insurance company?

- A. Investigating insurance claims**
- B. Setting rates for various classes of insurance**
- C. Regulating insurer investment**
- D. Licensing insurance brokers**

The primary function of the Actuarial Department in an insurance company is to set rates for different insurance policies or classes of insurance. This includes analyzing and evaluating data related to risk and probability in order to determine the appropriate premiums to charge for different types of insurance coverage. Option A, investigating insurance claims, is typically handled by a separate claims department. Option C, regulating insurer investment, is usually the role of a regulatory body or government agency. Option D, licensing insurance brokers, is the responsibility of a licensing department or agency. While these functions and roles may overlap to some extent within an insurance company, the primary function of the Actuarial Department is focused on determining rates for insurance policies.

9. How must a waiver under a policy be expressed?

- A. In a complicated manner**
- B. Verbally only**
- C. Through an implied agreement**
- D. Clearly and in writing**

A waiver under a policy must be expressed clearly and in writing in order to avoid any misunderstandings or misinterpretations. Option A is incorrect because a waiver that is expressed in a complicated manner may not be easily understood by all parties involved. Option B is incorrect because verbal agreements may not hold up in a legal setting. Option C is incorrect because an implied agreement may not clearly state the terms of the waiver. Overall, expressing a waiver in writing ensures that all parties are aware of and agree to the terms of the waiver.

10. What is a key feature of a person with good character?

- A. Ability to manipulate others**
- B. Strong work ethic**
- C. Desire for personal gain**
- D. Lack of perseverance**

A key feature of a person with good character is having a strong work ethic. This means they have a sense of responsibility and are dedicated to working hard to achieve their goals. Option A, the ability to manipulate others, is incorrect as someone with good character does not use manipulation to achieve their desires. Option C, desire for personal gain, is incorrect as someone with good character is more likely to value honesty and fairness over personal gain. Option D, lack of perseverance, is incorrect as someone with good character would have the strength and determination to overcome challenges and not give up easily.