

Alberta General Insurance Level 1 Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. What does perseverance refer to in terms of character?**
 - A. The ability to work under pressure**
 - B. The longevity of one's career**
 - C. Steady persistence in spite of difficulties**
 - D. A strategy for managing finances**
- 2. In insurance terms, what is a "loss ratio"?**
 - A. The ratio of claims paid to premiums earned**
 - B. The percentage of claims filed by policyholders**
 - C. The ratio of the insurer's operating expenses to premiums collected**
 - D. The total number of policies in force**
- 3. What does investing of capital involve for an insurer?**
 - A. Investing in every available opportunity**
 - B. Allocating resources without assessing risks**
 - C. Choosing specific risks to invest in**
 - D. Avoiding all forms of investments**
- 4. Which of the following is NOT a way to locate sales prospects?**
 - A. Referrals**
 - B. Networking events**
 - C. Cold calling**
 - D. Advertising/ walk-ins**
- 5. Explain the term "rate-making".**
 - A. The process of investigating fraudulent claims**
 - B. The act of marketing insurance products**
 - C. The process of determining the premium rates charged by insurance companies**
 - D. The method of adjusting coverage limits based on market trends**

- 6. What is the primary role of finance companies in insurance premium payment for commercial accounts?**
- A. To provide insurance coverage**
 - B. To pay the full premium to the broker and collect from the insured**
 - C. To act as an intermediary between the insured and insurer**
 - D. To underwrite insurance policies**
- 7. What can result from effective up-selling?**
- A. Decreased customer satisfaction**
 - B. Increased coverage for the client**
 - C. Reduced sales**
 - D. Increased product returns**
- 8. What is the relationship between insurance companies and insureds through brokers?**
- A. Broker-directed policies without insurer consent**
 - B. Limited liability on behalf of insurance companies**
 - C. Obligated to insureds through contracts created by agents/brokers**
 - D. No direct obligation to insureds**
- 9. What must insurers do to survive and make a profit?**
- A. Offer coverage only to high-risk individuals**
 - B. Ensure the insureds incur more losses than premiums paid**
 - C. Seek insureds likely to incur less losses than premiums paid**
 - D. Invest all capital into a single venture**
- 10. What constitutes Non-Disclosure in an insurance contract?**
- A. Failing to document conversations**
 - B. Not disclosing material facts**
 - C. Having utmost good faith**
 - D. Collecting information irrelevant to the policy**

Answers

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

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Explanations

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1. What does perseverance refer to in terms of character?

- A. The ability to work under pressure**
- B. The longevity of one's career**
- C. Steady persistence in spite of difficulties**
- D. A strategy for managing finances**

Perseverance refers to the ability to persist and remain determined in the face of challenges and difficulties. Option A, the ability to work under pressure, only encompasses a specific aspect of perseverance and does not take into account other types of challenges that may not involve pressure. Option B, the longevity of one's career, is not necessarily related to character and can be influenced by other factors such as stability and luck. Option D, managing finances, is not related to character at all and is a completely different skill set. Option C is the most accurate and comprehensive choice that captures the essence of perseverance as a character trait.

2. In insurance terms, what is a "loss ratio"?

- A. The ratio of claims paid to premiums earned**
- B. The percentage of claims filed by policyholders**
- C. The ratio of the insurer's operating expenses to premiums collected**
- D. The total number of policies in force**

The term "loss ratio" refers specifically to the relationship between claims paid out by an insurance company and the premiums that have been earned during a given period. It is calculated by dividing the total amount of claims by the total premiums earned, and it is often expressed as a percentage. This metric is crucial for insurance companies as it helps them assess the profitability of their policies and the effectiveness of their underwriting process. A higher loss ratio indicates that a greater portion of the premiums is being used to pay claims, which may suggest higher risk or inadequate pricing of policies. Conversely, a lower loss ratio reflects more efficient claims management and underwriting practices, indicating that the company retains a larger portion of its premiums as profit. The other choices provided do not define a loss ratio correctly. The percentage of claims filed and the ratio of operating expenses to premiums collected pertain to different financial metrics in insurance, while the total number of policies in force does not relate specifically to financial performance in terms of losses versus premiums.

3. What does investing of capital involve for an insurer?

- A. Investing in every available opportunity
- B. Allocating resources without assessing risks
- C. Choosing specific risks to invest in**
- D. Avoiding all forms of investments

Investing of capital for an insurer involves choosing specific risks to invest in. This means that an insurer has to carefully assess and select which investments to make, taking into consideration the potential risks and returns involved. Option A is incorrect because investing in every available opportunity can be considered a reckless and overly aggressive approach, which may result in significant losses. Option B is incorrect because allocating resources without assessing risks can also lead to poor investment decisions and negative consequences. Option D is incorrect because avoiding all forms of investments is not a viable strategy for an insurer, as investments can help generate income and strengthen their financial position. Therefore, option C is the most appropriate and responsible approach for an insurer when it comes to investing their capital.

4. Which of the following is NOT a way to locate sales prospects?

- A. Referrals
- B. Networking events**
- C. Cold calling
- D. Advertising/ walk-ins

There are multiple effective ways to locate sales prospects, such as through referrals, cold calling, and advertising or walk-ins. However, networking events is not a recommended method for finding sales prospects. Networking events are typically more focused on building professional connections and relationships rather than directly generating sales. Therefore, it is not a reliable method for locating sales prospects.

5. Explain the term "rate-making".

- A. The process of investigating fraudulent claims**
- B. The act of marketing insurance products**
- C. The process of determining the premium rates charged by insurance companies**
- D. The method of adjusting coverage limits based on market trends**

Rate-making refers to the process used by insurance companies to determine the premium rates that they will charge policyholders for coverage. This process involves a thorough analysis of various factors including historical data on claims, expected loss costs, administrative expenses, and the overall risk profile of the insured population. In rate-making, actuaries use statistical methods to assess the likelihood of claims occurring and the potential costs associated with those claims. The goal is to set premiums at a level that not only covers expected losses but also contributes to the insurer's operational costs and profit margins. By accurately determining these rates, insurance companies aim to maintain solvency while also remaining competitive in the market. The other options do not accurately reflect the definition of rate-making. Investigating fraudulent claims pertains to claims management rather than the establishment of premium rates. Marketing insurance products involves promoting and selling policies, which is a separate function. Adjusting coverage limits in response to market trends is more about adapting policy offerings rather than setting the rates charged for those policies.

6. What is the primary role of finance companies in insurance premium payment for commercial accounts?

- A. To provide insurance coverage**
- B. To pay the full premium to the broker and collect from the insured**
- C. To act as an intermediary between the insured and insurer**
- D. To underwrite insurance policies**

Finance companies play a crucial role in insurance premium payment by acting as a middleman between the insured and the broker. This means that the finance company pays the full premium to the broker on behalf of the insured and then collects the payment from the insured. Option A is incorrect because providing insurance coverage is the primary role of insurance companies, not finance companies. Option C is incorrect because finance companies are not intermediaries between the insured and insurer, but rather between the insured and broker. Option D is incorrect because underwriting insurance policies is the responsibility of the insurer, not finance companies.

7. What can result from effective up-selling?

- A. Decreased customer satisfaction**
- B. Increased coverage for the client**
- C. Reduced sales**
- D. Increased product returns**

Effective up-selling can result in increased coverage for the client, as the customer is more likely to make additional purchases when they are presented with complementary or upgraded products or services. The other options are incorrect because - decreased customer satisfaction is less likely with effective up-selling, as the customer is receiving more value for their purchase - reduced sales is also unlikely, as effective up-selling increases the overall sales revenue - increased product returns is also unlikely, as up-selling can lead to a better match between the customer's needs and the product, reducing the likelihood of returns.

8. What is the relationship between insurance companies and insureds through brokers?

- A. Broker-directed policies without insurer consent**
- B. Limited liability on behalf of insurance companies**
- C. Obligated to insureds through contracts created by agents/brokers**
- D. No direct obligation to insureds**

Insurance companies and insureds have an obligated relationship through contracts created by agents/brokers. This means that the insurance company has a direct responsibility to provide coverage as outlined in the insurance policy, while the insured is responsible for paying premiums and adhering to the terms of the contract. Options A and B are incorrect because they suggest that brokers have full control over the policies and liability for the insurance companies, which is not the case. Option D is also incorrect because insurance companies do have an obligation to the insured through the contract created by the broker.

9. What must insurers do to survive and make a profit?

- A. Offer coverage only to high-risk individuals**
- B. Ensure the insureds incur more losses than premiums paid**
- C. Seek insureds likely to incur less losses than premiums paid**
- D. Invest all capital into a single venture**

Insurers must seek insureds who are likely to incur less losses than premiums paid in order to survive and make a profit. Option A is incorrect because offering coverage only to high-risk individuals would increase the amount of claims and lead to higher losses for the insurer. Option B is incorrect because if the insureds incur more losses than premiums paid, the insurer would not make a profit. Option D is incorrect because investing all capital into a single venture is a high-risk strategy and could lead to financial losses for the insurer. Therefore, option C is the best choice as it aligns with the goal of insurers to minimize losses and generate profits.

10. What constitutes Non-Disclosure in an insurance contract?

A. Failing to document conversations

B. Not disclosing material facts

C. Having utmost good faith

D. Collecting information irrelevant to the policy

Non-Disclosure in an insurance contract refers to the failure or omission to disclose material facts that would affect the insurance company's decision to provide coverage. Options A, C, and D are incorrect because they do not accurately describe non-disclosure. Failing to document conversations, having utmost good faith, and collecting irrelevant information may not necessarily constitute non-disclosure unless those actions result in the failure to disclose important facts. Option B is the best choice as it directly relates to the concept of non-disclosure in an insurance contract.