

Alberta General Insurance Level 1 Practice Exam (Sample)

Study Guide



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SAMPLE

Questions

- 1. What is a key consideration for insurers in selecting risks?**
 - A. The diversity of insured demographics**
 - B. The potential for high investment returns**
 - C. The likelihood of incurring less losses than premiums paid**
 - D. The size of the insured's business**
- 2. Which statement correctly describes the insurance term "beneficiary"?**
 - A. The individual responsible for paying premiums**
 - B. A person designated to receive benefits from an insurance policy**
 - C. The insurance company that underwrites the policy**
 - D. A clause that specifies conditions under which the policy is void**
- 3. How is the Loss Ratio calculated?**
 - A. Incurred claims divided by earned premiums**
 - B. Earned premiums divided by incurred claims**
 - C. Incurred claims plus earned premiums**
 - D. Earned premiums minus incurred claims**
- 4. What is Facultative Reinsurance characterized by?**
 - A. Mass acceptance of risks**
 - B. Risk evaluated on a case-by-case basis**
 - C. Automatic risk transfer**
 - D. A fixed percentage of all risks**
- 5. What is a premium in insurance terms?**
 - A. The maximum amount payable in case of a claim**
 - B. The document proving insurance coverage**
 - C. The price of insurance protection for a specified risk for a specified period**
 - D. An additional fee for insurance processing**

- 6. 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**
- 7. Why do insurers need to invest capital wisely?**
- A. To ensure a steady stream of marketing content**
 - B. Because the invested capital is restricted by indemnification**
 - C. To cover operational expenses exclusively**
 - D. To focus solely on high-risk investments**
- 8. What kind of reinsurance agreement specifies loss limits and premium payments beforehand?**
- A. Proportional Reinsurance Contract**
 - B. Non-Proportional Reinsurance Agreement**
 - C. Treaty Reinsurance Agreement**
 - D. Facultative Reinsurance Case**
- 9. When is a public adjuster typically hired?**
- A. For all insurance claims**
 - B. When the claim is small**
 - C. For routine claim settlements**
 - D. For large disputed claims**
- 10. In which situation would comprehensive auto insurance be most appropriate?**
- A. For protection against theft or vandalism of a vehicle**
 - B. To cover damages from collision events**
 - C. For legal liability arising from accidents**
 - D. To insure against driver-related accidents only**

Answers

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

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Explanations

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1. What is a key consideration for insurers in selecting risks?

- A. The diversity of insured demographics**
- B. The potential for high investment returns**
- C. The likelihood of incurring less losses than premiums paid**
- D. The size of the insured's business**

One key consideration for insurers in selecting risks is the likelihood of incurring less losses than premiums paid. This is important because insurers want to make sure that they are not taking on too much risk and potentially having to pay out more in losses than they receive in premiums. Option A may be a factor in determining premiums, but it is not the key consideration for selecting risks. Option B may be a consideration for insurers, but it is not the main concern when selecting risks. Option D, the size of the insured's business, may also play a role in determining premiums, but it is not the primary factor in selecting risks.

2. Which statement correctly describes the insurance term "beneficiary"?

- A. The individual responsible for paying premiums**
- B. A person designated to receive benefits from an insurance policy**
- C. The insurance company that underwrites the policy**
- D. A clause that specifies conditions under which the policy is void**

The term "beneficiary" in the context of insurance refers specifically to a person or entity that is designated to receive benefits from an insurance policy upon the occurrence of a specified event, such as the death of the insured in life insurance or a covered loss in property insurance. This designation is crucial as it determines who will financially benefit from the policy when a claim is made. Selecting the correct definition is important because understanding the role of the beneficiary provides clarity on how claims are processed and who is entitled to receive the proceeds. It highlights the relationship between the policyholder and the individual(s) who will receive the benefits, ensuring that those benefits are allocated correctly as per the wishes of the policyholder. Other options do not accurately capture the essence of the term. The individual responsible for paying premiums does not inherently receive benefits from the policy, as they may not be the designated beneficiary. The insurance company underwriting the policy is a distinct entity that provides coverage but does not receive benefits. Finally, a clause specifying conditions under which a policy might be void relates to the terms of the agreement rather than the recipients of the benefits.

3. How is the Loss Ratio calculated?

- A. Incurred claims divided by earned premiums**
- B. Earned premiums divided by incurred claims
- C. Incurred claims plus earned premiums
- D. Earned premiums minus incurred claims

A loss ratio is used in insurance to measure the ratio of claims paid out to premiums collected and is expressed as a percentage. It is calculated by dividing the total incurred claims by the earned premiums. This provides insight into the profitability and risk exposure of an insurance company. The other options, B, C, and D, do not accurately calculate the loss ratio. Option B would result in a fraction that is not indicative of a percentage, while options C and D include both incurred claims and earned premiums in the calculation, which would produce a significantly different value. Therefore, option A is the most accurate and appropriate method for calculating the loss ratio.

4. What is Facultative Reinsurance characterized by?

- A. Mass acceptance of risks
- B. Risk evaluated on a case-by-case basis**
- C. Automatic risk transfer
- D. A fixed percentage of all risks

Facultative Reinsurance is a type of reinsurance that involves risk evaluation on a case-by-case basis. This means that each risk is assessed individually and the terms of the reinsurance agreement are negotiated accordingly. This is different from Mass Reinsurance (option A) which involves accepting all risks without evaluation, Automatic Reinsurance (option C) which automatically transfers a predetermined set of risks, and Quota Share Reinsurance (option D) which involves a fixed percentage of all risks being ceded to the reinsurer. Therefore, Facultative Reinsurance is not characterized by mass acceptance, automatic risk transfer, or a fixed percentage of all risks.

5. What is a premium in insurance terms?

- A. The maximum amount payable in case of a claim
- B. The document proving insurance coverage
- C. The price of insurance protection for a specified risk for a specified period**
- D. An additional fee for insurance processing

A. The maximum amount payable in case of a claim would be the policy limit, not the premium. The premium is the cost of the insurance, not the maximum claim amount. B. The document proving insurance coverage would be the insurance policy, not the premium. The premium is the cost of the insurance, not the proof of insurance. D. An additional fee for insurance processing would be referred to as the insurance processing fee, not the premium. The premium is the cost of the insurance itself.

6. 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.

7. Why do insurers need to invest capital wisely?

- A. To ensure a steady stream of marketing content**
- B. Because the invested capital is restricted by indemnification**
- C. To cover operational expenses exclusively**
- D. To focus solely on high-risk investments**

Insurers need to invest capital wisely because the invested capital is restricted by indemnification. This option is the correct answer because indemnification refers to the process of compensating someone for any losses or damages they may experience. In the context of insurance, this means that insurers are responsible for covering any claims or payouts made by their customers. Therefore, insurers must invest their capital wisely to ensure they have enough funds to pay for these potential losses. The other options are incorrect because they either do not directly relate to the concept of indemnification or are too limited in their scope. For example, option A mentions marketing, which is not directly related to the necessity of wise capital investment, and options C and D only focus on specific aspects of an insurer's expenses or investments, rather than the overall need for prudent financial management.

8. What kind of reinsurance agreement specifies loss limits and premium payments beforehand?

- A. Proportional Reinsurance Contract**
- B. Non-Proportional Reinsurance Agreement**
- C. Treaty Reinsurance Agreement**
- D. Facultative Reinsurance Case**

A treaty reinsurance agreement is designed to cover a portfolio of policies or a specific group of risks, which allows both parties to agree on terms such as loss limits and premium payments before the agreement is implemented. This type of arrangement provides the ceding insurer with certainty regarding the reinsurance costs and coverage limits, thereby facilitating budgeting and risk management. Treaty agreements differ from facultative reinsurance, where each risk is considered individually and no predetermined loss limits or premiums are set until the specific risk is underwritten. Non-proportional reinsurance also has unique features, focusing on the layer of risk exposure above a certain retention limit, rather than a set agreement on all premiums and loss limits beforehand, while proportional reinsurance involves sharing losses and premiums in a ratio, which does not inherently guarantee predefined limits or payments. Thus, a treaty reinsurance agreement effectively encapsulates the pre-negotiated parameters that the question is asking about.

9. When is a public adjuster typically hired?

- A. For all insurance claims**
- B. When the claim is small**
- C. For routine claim settlements**
- D. For large disputed claims**

A public adjuster is typically hired for large disputed claims. This is because public adjusters specialize in representing policyholders and negotiating with insurance companies on their behalf for more complex and higher-value claims. While they may also be hired for smaller or routine claims, their expertise and services are more often necessary and beneficial for larger claims that may be more challenging to settle. Therefore, options A, B, and C are not typically the situations in which a public adjuster is hired.

10. In which situation would comprehensive auto insurance be most appropriate?

- A. For protection against theft or vandalism of a vehicle**
- B. To cover damages from collision events**
- C. For legal liability arising from accidents**
- D. To insure against driver-related accidents only**

Comprehensive auto insurance is designed to provide coverage for a variety of risks that are not directly related to collisions with other vehicles. This type of insurance is most appropriate for protecting against risks such as theft, vandalism, fire, natural disasters, and other incidents that can cause damage to a vehicle but do not involve a collision with another car. In the context of the question, the choice regarding protection against theft or vandalism directly aligns with the primary purpose of comprehensive coverage. This protection is crucial for vehicle owners who want to safeguard their investment from loss or damage that occurs outside of their control, such as someone stealing the vehicle or intentionally damaging it. Conversely, the other choices outline different types of coverage that are not encompassed by comprehensive insurance. For instance, coverage for collision events specifically focuses on damage resulting from accidents involving another vehicle or object, and legal liability pertains to injuries or damages sustained by others in an accident involving the insured vehicle. The option mentioning driver-related accidents suggests a focus solely on incidents attributable to the driver's actions, which falls under different types of coverage, such as liability or collision insurance, rather than comprehensive.