

CAS Data Insurance Series Courses - Insurance Accounting (DISC IA) Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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- 1. What does negligence per se refer to?**
 - A. Inadvertent actions that lead to harm**
 - B. Inherent negligence from violating a law**
 - C. Negligence inferred through the actions of others**
 - D. A standard of care expected in negligence cases**
- 2. What do ISO's unmanned aircraft exclusion endorsements do?**
 - A. Fortify coverage for aircraft related losses**
 - B. Provide coverage for drone-related liability**
 - C. Exclude drone-related liability**
 - D. Add additional insured status for drone operators**
- 3. What type of insurer is an insurer that is incorporated within the same jurisdiction it operates?**
 - A. Foreign Insurer**
 - B. Domestic Insurer**
 - C. Alien Insurer**
 - D. Surplus Lines Insurer**
- 4. Which condition must a mortgageholder meet to obtain coverage?**
 - A. They must pay insurance premiums on time.**
 - B. They must avoid any property changes.**
 - C. They must enforce a policy exclusion.**
 - D. They must submit a claim before a loss occurs.**
- 5. What must a risk retention group do to write insurance in other states?**
 - A. Obtain an additional license for each state**
 - B. File appropriate notice and registration forms**
 - C. Change its business structure**
 - D. Get an endorsement from the state's insurance commissioner**

- 6. What does the income statement primarily reflect in insurer financial statements?**
- A. Assets and liabilities**
 - B. Cash flow activities**
 - C. Revenue and expenses**
 - D. Regulatory compliance**
- 7. Which factor is NOT known to contribute to insurer insolvency?**
- A. Rapid premium growth**
 - B. Excessive competition leading to lower prices**
 - C. High reserve levels**
 - D. Fraud**
- 8. Which type of law requires prior approval for new rates above a specified percentage?**
- A. Prior-approval laws**
 - B. Flex rating laws**
 - C. No filing laws**
 - D. File-and-use laws**
- 9. What is the primary focus of management accounting?**
- A. External financial reporting**
 - B. Tax compliance**
 - C. Compliance with international standards**
 - D. Internal management needs**
- 10. What is the legal implication when an owner of a vicious dog knows it can harm others?**
- A. No liability applies**
 - B. Liability only if the dog attacks**
 - C. Strict liability may apply**
 - D. Liability applies only to property damage**

Answers

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

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Explanations

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1. What does negligence per se refer to?

- A. Inadvertent actions that lead to harm
- B. Inherent negligence from violating a law**
- C. Negligence inferred through the actions of others
- D. A standard of care expected in negligence cases

Negligence per se refers to a legal doctrine that establishes a party's negligence due to their violation of a statute or regulation. In this context, when an individual or entity breaches a law designed to protect public safety, that violation is automatically considered negligent. In other words, negligence per se indicates that the act of breaking the law itself constitutes a breach of the duty of care required in various situations. The rationale behind this doctrine is that the law is put in place to prevent harm, and failing to comply with it can directly result in injury to others. Thus, when an individual is found to have violated such a law, it is inherently assumed that they have acted negligently, and this assumption can lead to liability without the need to prove traditional elements of negligence, such as the standard of care, breach, or causation. Understanding negligence per se is crucial in legal and insurance contexts, as it simplifies the process of determining negligence in cases where a law is violated, thereby providing a clearer path for plaintiffs seeking damages.

2. What do ISO's unmanned aircraft exclusion endorsements do?

- A. Fortify coverage for aircraft related losses
- B. Provide coverage for drone-related liability
- C. Exclude drone-related liability**
- D. Add additional insured status for drone operators

The unmanned aircraft exclusion endorsements provided by ISO specifically serve to exclude coverage for drone-related liability in insurance policies. This means that any damages or liabilities arising from the operation of unmanned aircraft, such as drones, are not covered under standard insurance policies that include these endorsements. The intent behind this exclusion is to address the unique risks and evolving legal landscape surrounding the use of drones, which can present different challenges compared to traditional aircraft. Excluding drone-related liability helps insurers manage their risk exposure, as the operational parameters and potential liabilities associated with drones differ significantly from those associated with manned aircraft. This is particularly important given the rapid growth in the use of drones for commercial and recreational purposes, leading to new liability concerns that may not be adequately addressed by traditional insurance coverage. Other options suggest that there would be coverage or additional benefits related to drones, which does not align with the purpose of the unmanned aircraft exclusion endorsements.

3. What type of insurer is an insurer that is incorporated within the same jurisdiction it operates?

- A. Foreign Insurer**
- B. Domestic Insurer**
- C. Alien Insurer**
- D. Surplus Lines Insurer**

A domestic insurer is defined as an insurer that is incorporated and operates within the same jurisdiction. This means that the company's charter, or incorporation, is granted under the laws of the state or country where it does business. Being a domestic insurer implies that the entity is subject to the regulations and oversight of the local insurance department, which ensures compliance with local laws regarding financial requirements, policyholder protections, and market conduct. In contrast, a foreign insurer operates in a jurisdiction different from where it was incorporated. An alien insurer is one that is incorporated outside of the jurisdiction in which it operates, often reflecting international operations. Surplus lines insurers provide insurance coverage that is not available from licensed insurers in a particular jurisdiction and often deal with specialized risks. These distinctions clarify why the correct identifier for an insurer functioning within its foundational jurisdiction is a domestic insurer.

4. Which condition must a mortgageholder meet to obtain coverage?

- A. They must pay insurance premiums on time.**
- B. They must avoid any property changes.**
- C. They must enforce a policy exclusion.**
- D. They must submit a claim before a loss occurs.**

A mortgageholder must pay insurance premiums on time to obtain coverage. Timely payment of premiums is fundamental in maintaining the validity of an insurance policy. If premiums are not paid on time, the policy may lapse, resulting in a loss of coverage that protects the mortgageholder's interests in the property. By ensuring that premiums are current, the mortgageholder secures the necessary coverage that safeguards their investment in the event of a loss or damage to the property. Meeting this condition ensures that the mortgageholder is in good standing with the insurance provider, allowing them to receive benefits when a claim is filed. The other options do not address the critical requirement of maintaining valid insurance coverage through timely premium payments.

5. What must a risk retention group do to write insurance in other states?

A. Obtain an additional license for each state

B. File appropriate notice and registration forms

C. Change its business structure

D. Get an endorsement from the state's insurance commissioner

A risk retention group must file appropriate notice and registration forms to write insurance in other states. This process typically involves notifying the states where the group intends to conduct business and complying with specific registration requirements laid out by those states. This is a regulatory framework established to ensure that insurance entities maintain transparency and accountability when operating across state lines. The requirement to register rather than obtain a separate license for each state recognizes the unique nature of risk retention groups, which are designed to allow similar businesses to pool their resources to cover their own risks more effectively. This streamlined process reflects a balance between the need for regulatory oversight and the operational flexibility intended by the formation of risk retention groups.

6. What does the income statement primarily reflect in insurer financial statements?

A. Assets and liabilities

B. Cash flow activities

C. Revenue and expenses

D. Regulatory compliance

The income statement provides a crucial overview of a company's financial performance over a specific period. In the context of insurer financial statements, the income statement primarily reflects revenue and expenses. This is vital for assessing the profitability of the insurer during the period in question. Revenue in an insurer's income statement can include premiums earned from policyholders, as well as investment income generated from the insurer's portfolio. Expenses encompass claims paid out, underwriting expenses, and other operational costs. By summarizing these elements, the income statement allows stakeholders, including investors and management, to evaluate how effectively the insurer generates profit and controls its costs. Understanding the interplay of revenue and expenses is key for assessing an insurer's overall financial health and performance. While assets and liabilities are crucial components found on the balance sheet, and cash flow activities and regulatory compliance are important considerations, they do not specifically represent what the income statement fundamentally conveys. Thus, the focus on revenue and expenses makes this the correct response.

7. Which factor is NOT known to contribute to insurer insolvency?

- A. Rapid premium growth**
- B. Excessive competition leading to lower prices**
- C. High reserve levels**
- D. Fraud**

High reserve levels are generally considered a sign of financial stability rather than a contributing factor to insurer insolvency. When insurers maintain high reserve levels, it indicates that they are adequately setting aside resources to cover future policyholder claims. This practice is essential for ensuring that an insurer can meet its obligations when claims arise. In contrast, rapid premium growth can lead to insolvency if it is not managed properly, as it may result in an underestimation of risk or inadequate reserves. Excessive competition leading to lower prices can pressure profitability and sustainability, causing financial instability. Similarly, fraud can significantly deplete an insurer's resources and affect its bottom line, ultimately threatening solvency. High reserve levels, therefore, are protective measures that bolster the insurer's financial health, distinguishing them from the other factors that can jeopardize an insurer's financial conditions.

8. Which type of law requires prior approval for new rates above a specified percentage?

- A. Prior-approval laws**
- B. Flex rating laws**
- C. No filing laws**
- D. File-and-use laws**

The correct answer is based on the concept of flex rating laws, which are designed to allow insurance companies some flexibility in adjusting their rates while still providing regulatory oversight. Under flex rating laws, insurers are typically allowed to raise their rates without prior approval, provided the increase does not exceed a predetermined percentage set by the regulatory authority. If the rate increase exceeds this threshold, prior approval must be obtained before the new rates can be implemented. This framework aims to balance the need for insurance companies to remain competitive and adjust to market conditions while ensuring that policyholders are protected from excessive rate increases. The majority of the regulatory models involve some form of filing or approval process, but flex rating laws specifically strike a compromise between full prior approval and complete freedom, hence emphasizing the importance of the specified percentage threshold for rate changes. In contrast, prior-approval laws generally require all rate increases to be approved by the regulatory body before they can be implemented, while no filing laws and file-and-use laws apply different rules regarding the regulatory process for setting rates.

9. What is the primary focus of management accounting?

- A. External financial reporting**
- B. Tax compliance**
- C. Compliance with international standards**
- D. Internal management needs**

Management accounting primarily focuses on internal management needs by providing relevant information that helps managers make informed decisions. This aspect of accounting is tailored to assist in planning, controlling, and evaluating operations within an organization. Unlike external financial reporting, which targets shareholders and regulatory bodies, management accounting emphasizes creating reports and analyses that are beneficial for managers to enhance organizational efficiency and effectiveness. For example, management accounting provides budgeting information, variance analysis, and performance metrics that are critical in strategic decision-making processes. This internal focus allows organizations to respond to their specific operational challenges and improve overall performance, making it foundational to successful management practices.

10. What is the legal implication when an owner of a vicious dog knows it can harm others?

- A. No liability applies**
- B. Liability only if the dog attacks**
- C. Strict liability may apply**
- D. Liability applies only to property damage**

When the owner of a vicious dog is aware that the animal has the potential to cause harm, strict liability may apply. This legal concept holds an owner responsible for any harm caused by their dog, regardless of whether the owner took precautions to prevent the attack. The rationale here is based on the inherent danger posed by a known vicious animal; if the owner is aware of the risk and does nothing to mitigate it, they can be held accountable for any injuries or damages that occur as a result of the animal's behavior. Strict liability provides a strong incentive for dog owners to take the necessary precautions to control their pets, knowing that liability is not contingent upon proving negligence or fault on their part. In many jurisdictions, this principle applies specifically to cases involving animals classified as dangerous or vicious. Therefore, if an attack occurs, the owner can face legal repercussions simply because they were aware of their dog's aggressive tendencies, reinforcing the responsibility they hold in ensuring public safety.