

FBLA INSURANCE & RISK MANAGEMENT PRACTICE TEST (SAMPLE)

STUDY GUIDE



**SAMPLE STUDY GUIDE
WITH LIMITED QUESTIONS**

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THE FULL VERSION STUDY GUIDE**

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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1. Who owns mutual insurance companies?

- A. Stockholders
- B. Policyowners
- C. Government entities
- D. External investors

2. What characterizes intentional torts?

- A. Inadvertent actions causing harm
- B. Willful acts that result in harm to another
- C. Acts without intent that inadvertently cause loss
- D. Criminal acts committed with malice

3. According to the birthday rule, which parent's insurance is considered primary?

- A. Whichever parent has the latest birthday
- B. Whichever parent is the primary member
- C. Whichever parent has the earlier birthday
- D. Whichever parent has greater coverage

4. What is an important consideration regarding the cash value when loans are taken from a life insurance policy?

- A. The cash value will always remain stable
- B. Interest on the loan does not affect the cash value
- C. The outstanding loan reduces the face value to beneficiaries
- D. Loans can only be taken if the policy is active

5. What does "fundamental risk" typically refer to?

- A. Risks that can be insured
- B. Risks affecting many individuals or businesses
- C. Risks unique to specific entities
- D. Risks preventing any claims from being filed

- 6. What distinguishes a civil wrong from a criminal wrong?**
- A. A civil wrong results in jail time
 - B. A criminal wrong is judged by civil courts
 - C. A civil wrong typically involves compensation, while a criminal wrong does not
 - D. A criminal wrong usually involves monetary compensation
- 7. What is the primary purpose of dram shop law?**
- A. To provide licenses for bars and restaurants
 - B. To regulate the sale of alcoholic beverages
 - C. To hold sellers of alcoholic beverages liable for drunken patrons
 - D. To enforce drinking age restrictions
- 8. What does a surplus-share treaty entail regarding policy retention limits?**
- A. The reinsurer pays the full amount of each claim
 - B. The reinsurer pays anything above the retention limit, up to a specified maximum
 - C. Only catastrophic losses are covered
 - D. The insurer retains all risks above a certain amount
- 9. What information is included in the declarations section of an insurance contract?**
- A. Name and age of insured and issued date
 - B. Details of the insurance claims process
 - C. Insurance laws and regulations
 - D. Dispute resolution procedures
- 10. Which of the following best describes operational risk?**
- A. A risk affecting individual assets
 - B. A risk originating from day-to-day business operations
 - C. A risk impacting the entire economy
 - D. A risk that can only result in loss

Answers

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

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Explanations

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1. Who owns mutual insurance companies?

- A. Stockholders
- B. Policyowners**
- C. Government entities
- D. External investors

Mutual insurance companies are unique in their ownership structure. They are owned by the policyowners, meaning that the individuals or entities who purchase insurance from the mutual company effectively hold ownership of the company itself. This structure aligns their interests more closely with the company's performance and decision-making, as profits earned by the mutual insurance company may be returned to policyowners in the form of dividends or reduced premiums, rather than being distributed to external shareholders as is common in stock insurance companies. This ownership model allows policyowners to have a say in the governance of the company, often giving them voting rights in major company decisions, which further distinguishes mutual insurance companies from those owned by stockholders or external investors who may not be policyholders. This focus on stakeholder interests fosters a sense of community and shared purpose among policyowners, enhancing customer loyalty and long-term sustainability of the company.

2. What characterizes intentional torts?

- A. Inadvertent actions causing harm
- B. Willful acts that result in harm to another**
- C. Acts without intent that inadvertently cause loss
- D. Criminal acts committed with malice

Intentional torts are characterized by willful acts that are intended to cause harm or injury to another person. This definition underscores the premise that the individual committing the tort has a specific intent to bring about the consequences of their actions, which distinguishes intentional torts from other types of torts. In the context of tort law, this means that the person engaged in the tortious behavior not only acts on purpose but also does so with knowledge that their actions would likely result in harm. Examples of intentional torts include assault, battery, false imprisonment, and defamation. Understanding this intentionality is crucial, as it plays a significant role in the legal outcomes and potential liabilities that arise from such actions. The other options mention inadvertence or lack of intent, which pertain to unintentional torts or negligence rather than intentional torts. Intentional torts focus on the deliberate nature of the actions involved, making the willful aspect a defining trait of this category of legal wrongdoing.

3. According to the birthday rule, which parent's insurance is considered primary?

- A. Whichever parent has the latest birthday
- B. Whichever parent is the primary member
- C. Whichever parent has the earlier birthday**
- D. Whichever parent has greater coverage

The birthday rule is a guideline used in coordinating medical insurance benefits for children when both parents have their own health insurance policies. Under this rule, the parent whose birthday falls earlier in the year is designated as the primary insurance provider for the child's medical expenses. This means that if a child is covered under two insurance plans, the insurance plan of the parent with the earlier birthday will pay first when claims are submitted, while the other parent's insurance will be considered secondary. This method avoids confusion and establishes a clear precedence for which insurance should be billed first, ultimately streamlining the process for paying medical bills. The rationale is based on the idea that the parent whose birthday is earlier has a longer duration of coverage for that year, effectively leading to that parent's plan being primary. In this case, the answer about which parent's insurance is considered primary aligns with the factual basis of the birthday rule, confirming that the parent with the earlier birthday holds priority in health insurance claims for the child.

4. What is an important consideration regarding the cash value when loans are taken from a life insurance policy?

- A. The cash value will always remain stable
- B. Interest on the loan does not affect the cash value
- C. The outstanding loan reduces the face value to beneficiaries**
- D. Loans can only be taken if the policy is active

When a loan is taken out against a life insurance policy, one critical consideration is the impact of that loan on the death benefit, or face value, of the policy. Specifically, any outstanding loan balance will effectively reduce the amount available to beneficiaries upon the policyholder's death. This occurs because the insurance company will deduct the loan amount plus any accrued interest from the death benefit before it is paid out. This means that if the policyholder has taken out a significant loan, the beneficiaries will receive a smaller payout than what would have been available if the loan had not been taken. Understanding this aspect is crucial for policyholders to manage their finances and ensure that their loved ones receive the intended benefits when they pass away. The other options do not address this key relationship between loans and the impact on death benefits. For example, the cash value does experience fluctuations, interest on the loan does affect the overall value of the policy as it increases the repayment amount, and loans can only be taken if the policy is active, but these points focus on different aspects of life insurance rather than the direct impact on the face value.

5. What does "fundamental risk" typically refer to?

- A. Risks that can be insured
- B. Risks affecting many individuals or businesses**
- C. Risks unique to specific entities
- D. Risks preventing any claims from being filed

Fundamental risk generally refers to risks that affect a large number of individuals or businesses simultaneously rather than just a single person or entity. These types of risks often stem from widespread economic or social phenomena, such as natural disasters, economic downturns, or changes in government policy, which can impact entire sectors or communities. Unlike specific or personal risks, which are unique to individuals or individual businesses, fundamental risks are systemic and commonly arise from external factors that are beyond the control of the affected parties. This systemic impact is precisely why they are grouped under the term "fundamental risk." Recognizing and managing these risks is crucial for both organizations and governments as they can lead to significant losses on a broader scale.

6. What distinguishes a civil wrong from a criminal wrong?

- A. A civil wrong results in jail time
- B. A criminal wrong is judged by civil courts
- C. A civil wrong typically involves compensation, while a criminal wrong does not**
- D. A criminal wrong usually involves monetary compensation

A civil wrong, commonly referred to as a tort, primarily deals with the harm suffered by an individual or entity, where the remedy typically involves compensation for damages. In civil cases, one party seeks to recover losses or damages caused by another's actions. This can involve a variety of situations, such as negligence, defamation, or breach of contract. In contrast, a criminal wrong involves actions that are considered offenses against the state or society as a whole, which are pursued by the government. The penalties for criminal wrongs can include imprisonment, fines, or community service, aiming to punish the offender and deter future crimes rather than provide direct compensation to the victim. This distinction clarifies that in civil cases, the emphasis is on rectifying a wrong through financial compensation, while criminal cases focus on punishing unlawful behavior.

7. What is the primary purpose of dram shop law?

- A. To provide licenses for bars and restaurants
- B. To regulate the sale of alcoholic beverages
- C. To hold sellers of alcoholic beverages liable for drunken patrons**
- D. To enforce drinking age restrictions

The primary purpose of dram shop law is to hold sellers of alcoholic beverages liable for the actions of intoxicated patrons. These laws are designed to protect the public by imposing legal responsibilities on bars, restaurants, and other establishments that serve alcohol. If a patron becomes intoxicated and subsequently causes harm to themselves or others—such as through accidents or violent behavior—the dram shop law allows for the possibility of legal action against the establishment that served them. This legal framework serves as a deterrent to irresponsible serving practices and promotes safer drinking environments. By making sellers accountable, dram shop laws encourage them to monitor their patrons more closely and take responsible measures to prevent over-serving. It is an important aspect of public safety and responsible alcohol service. Other options, while related to the sale and regulation of alcohol, do not capture the fundamental intent of dram shop laws, which is centered on liability and accountability rather than simply providing licenses, regulating sales, or enforcing age restrictions.

8. What does a surplus-share treaty entail regarding policy retention limits?

- A. The reinsurer pays the full amount of each claim
- B. The reinsurer pays anything above the retention limit, up to a specified maximum**
- C. Only catastrophic losses are covered
- D. The insurer retains all risks above a certain amount

A surplus-share treaty represents an arrangement where the primary insurer (ceding company) retains a certain amount of each risk, known as the retention limit, while the reinsurer covers the portion of the risk that exceeds this limit, up to a specified maximum. This allows the insurer to manage its risk exposure effectively by only taking on a manageable amount of liability. In this type of treaty, when a claim occurs that exceeds the retention limit set by the insurer, the reinsurer steps in to pay the difference, providing financial protection for the insurer and enabling it to write larger policies without taking on excessive risk. This mechanism helps stabilize the insurer's financial performance by reducing the potential impact of large claims on their liquidity and reserves. The other options do not accurately reflect the mechanics of surplus-share treaties. For example, one option suggests the reinsurer pays the full amount of each claim, which contradicts the nature of a surplus-share treaty since it only comes into play for amounts above the retention limit. Another option implies coverage is restricted to catastrophic losses, which is not a defining characteristic of this type of treaty. Lastly, the idea that the insurer retains all risks above a certain amount also misrepresents how these treaties function, as they do provide some level of

9. What information is included in the declarations section of an insurance contract?

- A. Name and age of insured and issued date**
- B. Details of the insurance claims process
- C. Insurance laws and regulations
- D. Dispute resolution procedures

The declarations section of an insurance contract is crucial as it provides fundamental details about the policyholder and the specifics of coverage. This section typically includes the name of the insured individual or entity, which is essential for identifying who is covered under the policy. Additionally, it often specifies the age of the insured, which can be relevant for certain types of insurance, such as life or health insurance, where age can impact risk assessment and premium calculations. The issued date of the policy is also included, marking when the coverage begins and ensuring that both the insurer and insured are clear about the effective period of the policy. This section serves as a summary of key information that lays the groundwork for the terms of the agreement detailed in the rest of the contract, making it a critical component of the policy.

10. Which of the following best describes operational risk?

- A. A risk affecting individual assets
- B. A risk originating from day-to-day business operations**
- C. A risk impacting the entire economy
- D. A risk that can only result in loss

Operational risk is best described as a risk originating from day-to-day business operations. This type of risk encompasses a wide range of potential issues that can arise from the internal processes, people, and systems within an organization. Examples of operational risk include system failures, human errors, fraud, and inadequate procedures or safeguards. These risks can lead to various adverse effects, such as financial losses, reputational damage, or regulatory penalties, due to the operational nature of the incidents. The other choices focus on different aspects of risk that do not accurately encapsulate what operational risk entails. For instance, risks affecting individual assets pertain more specifically to asset management rather than the broader scope of operational processes. The option concerning risks impacting the entire economy addresses systemic or macroeconomic risks, which are distinct from the operational failures of individual organizations. Meanwhile, a risk that can only result in loss misrepresents operational risk, as it can also lead to gains if effectively managed or controlled, highlighting that operational risk involves both positive and negative potential outcomes depending on how it is handled.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://fblainsuranceriskmgmt.examzify.com>

We wish you the very best on your exam journey. You've got this!

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