CHAPTER 1
INSURANCE BASICS

HISTORY OF INSURANCE

In the study of insurance, it is necessary to understand a definition of insurance. It is a mechanism to contractually shift burdens of a number of pure risks by pooling those risks together. People strive for financial and emotional security to protect themselves and their families. This security gives peace of mind and freedom of apprehension as to what the future will hold. However, there always will be uncertainties of loss known as risks. Uncertainties we face include death, illness, disability, loss or damage to property, and financial problems that result from these various risks.

Historians trace insurance roots back to more than four thousand years ago to ancient traders among the Babylonians, Phoenicians, and Chinese. In its more modern form it is traced to London, England. On the second of September 1666, an oven in the king’s bakeshop caught fire. This fire spread and nearly destroyed the city of London. The loss of property alone was set at ten million pounds sterling. In 1667 a dentist, Dr. Nicholas Barbon, opened an office under a charter from the king offering insurance against the risk of fire to selected dwellings in London. In 1706 Charles Povey organized the Sun Fire office in London and insured dwellings and contents. This later became a stock company known as Sun Insurance and it still is transacting business.

It became obvious that insurance was to be a full-time business for those involved in writing insurance contracts instead of being conducted by merchants who dabbled in the business. The men involved in underwriting insurance organized themselves into groups to write insurance for their mutual protection and assistance. London coffeehouses became the meeting places for these men conducting insurance business. Merchants and sea captains who needed to insure their ships and cargo went to these coffeehouses to make known their need of insurance. The proposal for insurance would be placed on a table and any insurance man who wanted to insure a portion of the risk would sign his name on the document, indicating the amount of the total risk he would accept. This was the origin of the word underwriter as the insurer would sign his name under the proposal for insurance.

One coffeehouse proprietor was Edward Lloyd and he realized these insurance underwriters had a need for information about the condition of ships, size and types of cargoes, tides, weather conditions, and anything else that would affect ocean commerce. In 1696 he started publishing three times a week the Lloyd’s News. By now Lloyd’s was foremost among the insurance writing centers and the coffeehouse moved to the heart of the financial district.

By 1760 most of the American marine business in the colonies was being conducted at the Lloyd's Coffeehouse in Philadelphia.

After the Revolutionary War, British companies were not allowed to sell fire insurance in America due to charter limitations. Benjamin Franklin helped to establish the first fire insurance company in America in 1752. This company was the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire and was a mutual insurance company. The first life insurance company in America was established in 1759. This stock insurance company is still in existence and is known as the Presbyterian Ministers Fund. The first mutual life insurance company was New England Mutual. It was established in 1835 and also exists today.

As the insurance industry evolved into the 20th century, the mortality table was developed along with computations for needed premium amounts and reserves. Most new life policies written today are sold on an individual basis by a life insurance agent. According to the 1996 Life Insurance Fact Book, the life insurance per insured household was $159,100. By the late 1990s, life insurance in force exceeded $11.5 trillion dollars. Because of the large amount of money controlled by the insurance industry, it plays an important role in our economy as a source of investment funds being second only to the commercial banking industry.

REGULATION OF THE INSURANCE INDUSTRY

The insurance industry is mainly regulated by the states, but the federal government does exert some regulatory influence. In addition the industry regulates itself---mainly through the efforts of the National Association of Insurance Commissioners.

There have been challenges to the states regulating the insurance industry. In 1868 the Supreme Court case of Paul vs. Virginia dealt with a situation where an agent was transacting insurance for a company in New York and started transacting in Virginia where the company he represented had not complied with state laws. The Court determined that the transaction of insurance across state lines was not interstate commerce. Therefore, insurance regulation was left in the hands of the states. In 1944 in the Supreme Court case of the United States vs. the South-Eastern Underwriters Association reversed the former ruling. This time the Supreme Court held that the insurance industry was subject to a number of federal laws. The decision was that insurance transacted across state lines was interstate commerce and, therefore, subject to federal regulation. Any state laws in conflict with federal laws now were void. This decision caused a great deal of confusion in the industry and resulted in Congress passing the McCarran-Ferguson Act in 1945. Essentially this law stated that the federal government had the right to regulate the insurance industry, but it would not do so as long as the individual

states did an adequate job of regulation. To this day, this law stands although the federal government has passed laws regarding consumer privacy rights and other areas affecting the insurance industry. The Fair Credit Act was passed in 1970. Another Supreme Court decision in 1959 ruled that federal securities laws applied to insurance companies issuing variable contracts (variable life policies and variable annuities). These companies must conform to the regulation of the Securities and Exchange Commission (SEC) as well as state regulation. Agents selling variable products must hold a securities license as well as a life insurance license.

Frequently, laws are the result of abuses to the public. In 1905 the Armstrong Investigation led to the establishment of the New York Insurance Code as consumers were complaining about practices of insurance companies operating in the state. This code set a precedence for other states to follow and resulted in more understandable standard policy provisions, better procedures for filing and collecting on claims, and acceptable policy language describing policy benefits.

The National Association of Insurance Commissioners (NAIC) is an association of the chief insurance regulators in all 50 states, the District of Columbia, and five U.S. territories. Their primary responsibility is to protect the interests of insurance consumers. This group provides a forum for the development of uniform public policy through a series of model laws, regulations and guidelines that are developed for the states' use. States may choose to adopt the models intact or modify them to the needs of their consumers and marketplace. Although this organization lacks legal authority, it has done the most to standardize insurance laws among the states.

The NAIC's primary objectives are:

1. To encourage uniformity in state laws and regulations.
2. To assist in the administration of those laws and regulations by promoting efficiency.
3. To promote and protect the interests of policyowners and consumers.
4. To preserve state regulation of the insurance business.

To contact the NAIC:

National Association of Insurance Commissioners
120 West 12th Street, Suite 1100
Kansas City, Mo. 64105-1925
(816) 842-3600 FAX (816) 460-7593
www.naic.org

There are also professional associations that are involved in self-regulation. The National Association of Insurance and Financial Advisors

(NAIFA), the National Association of Health Underwriters (NAHU), and the Association of Health Insurance Agents (AHIA) are groups that promote the quality of service provided by insurance professionals. Each of these associations has a Code of Ethics that stresses the high professional standards expected of its members.

INSURANCE AS A DEVICE FOR HANDLING RISK

A **risk is a chance or uncertainty of loss**. In other words, there is more than one possible outcome. Your house may or may not burn down. Your car may or may not be stolen. You may or may not become disabled. There is an element of doubt or uncertainty in these situations.

There are two types of risks—speculative and pure.

1. A **pure risk** means that there is a chance of loss. It may or may not happen. However, there is no chance for a gain. If your house is burglarized, you will suffer a loss and no gain. This is a pure risk.

2. A **speculative risk** involves an uncertainty of loss, but there is also a chance of gain. For instance, if you go to Las Vegas and gamble at the roulette tables, you may win or you may lose. This is a speculative risk and, therefore, not insurable.

METHODS OF HANDLING RISK

There are basically five ways of managing a risk—avoidance, reduction, retention, transferring, and sharing. How we choose to manage a risk depends upon the situation, the amount of exposure, and individual circumstances.

Avoid—Avoiding any situation or event that involves a chance of loss. This means not undertaking an activity or acquiring property which could cause a loss. If you are overly concerned about being in an auto accident, do not own, operate, or ride in an auto. Although this may be an effective manner of handling a risk, it is not necessarily practical.

Reduce—Not circumventing the situation, but reducing the chance the loss will occur or the severity of the loss. You can reduce the chance of being in an auto accident by not driving during rush hour and not driving when it is raining.

Retain—Assuming responsibility for the loss and becoming **self-insured**. This could be involuntary due to being unaware of the risk or overlooking it or it may be voluntary. If voluntary, the individual or company will pay for losses they cause. In other words, self fund. If a company self-insures for auto

liability, it will simply pay for losses caused by its employees while driving a company vehicle. This is not always a feasible manner for an individual to handle a risk as a large amount of resources would be necessary. In underwriting, a **retention** is defined as the maximum amount that an insurer will accept or write on any one life or property contract.

Transfer—Transferring the risk of loss to another party. In insurance the insured transfers a potential risk of loss to the insurer. This is the most practical manner for an individual to handle a risk. If you are in an auto accident, the insurer will pay up to the amount of liability stated in the contract and you also can have protection for damage or loss of your car.

Sharing—Closely related to transferring. In insurance the insureds are part of a pool of insureds. The insureds make premium payments to the insurer who then has adequate funds to pay for losses incurred by the insureds.

Risk managers are individuals who specialize in the handling of risks by finding out what risks exist, analyzing the risks, deciding the method for handling the risk, and evaluating the results of their decisions by examining statistical data.

LOSS, PERIL, AND HAZARD

Loss is a reduction in quality, quantity, or value of something. There could be a loss of property such as a car being stolen or a house burning down. There could be a loss of income due to disablement or death of a wage earner. There could be a loss due to a liability claim such as the insured did harm to another in an auto accident. There could be a consequential loss such as the insured has property loss due to his store burning down and, as a consequence, the store is not open for business causing a loss of business income.

Peril is the potential or actual cause of loss. If a house burns down, the peril is fire. Perils encompass many things such as death, disease, earthquake, flood, windstorm, and explosion just to name a few.

Hazard is anything that increases the chance of loss. There are several types of hazards: physical, moral, morale, and legal.

Physical hazards are characteristics that increase the likelihood of loss. They are things that we can touch, see, hear, feel, or smell. They are the result of the structural, material, or operational features of a risk situation. Examples of physical hazards include a person’s physical condition, a slippery floor, and bald tires on a car.

Moral hazards result from individuals' values and character traits. Drug abuse, alcoholism, and filing false claims are all examples of moral hazards.

Morale hazards arise due to a person's indifference or carelessness. There is no intent to cause a loss, but due to one's lack of concern there is an increased chance of loss. Driving fast and recklessly would be considered a morale hazard as the driver certainly does not want to be in an accident but is increasing the chances of being in an accident as a result of poor driving.

Legal hazards are due to court actions that increase the likelihood of people filing claims and being awarded large amounts. This has affected the insurance industry as these claims usually have to do with legal liability and sometimes require insurance payments that were not intended.

INSURANCE

The definition of insurance according to the California Insurance Code is "a contract whereby one seeks to indemnify another against loss, damage, or liability arising from a contingent or unknown event". It could be further defined as a "social device for spreading the chance of financial loss among a large number of people". The individual (insured) makes a payment (premium) to the insurance company (insurer) to cover potential losses. In this way the risk (uncertainty or chance of loss) is spread among many people so the cost to any one individual is small. Essentially, the mechanism of **insurance is risk transfer**—transferring the risk of loss from the insured to the company.

Indemnify means to restore the victim of a loss, in whole or in part, to the financial position that he/she enjoyed prior to suffering the loss. The insured should not profit from a loss nor should the insured be in a worse financial position after the loss. In a property and casualty contract, the insurer could make a cash payment, repair the damage, or replace the damaged object. It should be noted that the situation in life insurance is different. A beneficiary of a life policy could be in a better financial position after receiving the death proceeds from a policy than he/she enjoyed previously. The amount of life insurance that a person purchases will be based on income, financial responsibilities, future earnings ability, and assets. A primary reason for purchasing life insurance is to protect the family by leaving a lump-sum payment or creating a stream of income so the family can continue to enjoy the lifestyle that existed prior to the death of the insured.

An individual becomes liable to another party by committing a tort. A tort is a civil legal wrong and is covered under the civil code. It does not include a crime, which is punishable under criminal law, and it does not apply to breach of contract, which is covered under contract law. Tort law and contract law define civil liability exposures. The four areas covered under tort law are

negligence, intentional interference, absolute liability, and strict liability. A homeowner, who does not repair broken porch steps that collapse when someone walks on them, is guilty of negligence. Examples of intentional interference are assault and battery. A person who has a tiger for a pet that mauls a neighbor can be held liable under absolute liability rules. The manufacturer of a defective product (e.g. ladders that collapse) that harms a buyer can be found liable under strict liability rules.

Liability policies are third-party contracts in which the insurer will pay for losses suffered by a third party for which the insured is legally responsible. Tort law is devoted to the area of legal liability. Torts can be both intentional and unintentional. Liability insurance can provide protection for unintentional torts. An unintentional tort can be thought of as negligence. For negligence to exist, there must be:

1. A legal duty owed
2. Breach of legal duty owed
3. Proximate cause (an action that in an uninterrupted chain of events causes the loss)
4. Damages

INSURABLE EVENTS

Any contingent or unknown event, whether past or future, which may effect a person having an insurable interest, or create a liability against him/her, may be insured against. (CIC 250)

LAW OF LARGE NUMBERS

The law of large numbers is the theory of probability that states **the greater the number of exposures, the more accurate the prediction** and the greater credibility of the prediction. This law is the basis for the statistical expectation of loss upon which premium rates for insurance are determined. Based on these statistics, the insurance company can predict fairly accurately how many of their policyholders will suffer a particular loss. Obviously, companies cannot predict which policyholders will have a loss; they only can predict the percentage of policyholders that may have a loss.

Each insured individual or item of property that is exposed to or has a potential for suffering a loss is referred to as an **exposure unit**. The price of insurance for each exposure unit is called the **rate.** As each exposure unit is subject to potential loss (although at the time of issuance of an insurance contract the severity, amount, and timing is not known), this is known as a **loss exposure**. An insured should manage risk situations in order to minimize losses. If an insured leaves his car parked on the street at night and does not

lock the car doors, it is not the proper manner in which to reduce risk as there is a greater likelihood of the car being stolen.

MORTALITY AND MORBIDITY TABLES

The mortality table shows the number of deaths at each age classified by male and female per 1000 individuals. These tables are based on a large cross-section of people and the collection of data over a long period of time. Many companies use the 1980 Commissioners Standard Ordinary (CSO) Mortality Table. Large insurance companies frequently construct their own mortality tables. As the mortality table indicates the average number of years remaining for a group of people of the same age and the probability of death for a group of persons each year, it is the basis used for establishing premium rates. Using this information, the insurance company can estimate how long insureds will live, how long the insureds will pay premiums, and when the insurer will have to pay death benefits.

The mortality table ends at age 100. There is no life insurance after this age. At age 100 whole life policies mature or endow.

COMMISSIONERS 1980 STANDARD ORDINARY MORTALITY TABLE
(excerpt)

AGE	MALE DEATHS PER 1,000	EXPECTATION OF LIFE (YEARS)	FEMALE DEATHS PER 1,000	EXPECTATION OF LIFE (YEARS)
0	4.18	70.83	2.89	75.83
10	.73	61.66	.68	66.53
20	1.90	52.37	1.05	57.04
30	1.73	43.24	1.35	47.65
40	3.02	34.05	2.42	38.36
50	6.71	25.36	4.96	29.53
60	16.08	17.15	9.47	21.25
70	39.51	10.96	22.11	13.67
80	98.84	6.18	65.99	7.48
90	221.77	3.18	190.75	3.45

The morbidity table shows the number of individuals exposed to the risk of illness, sickness, and disease at each age, and the actual number of individuals who incurred illness, sickness, and disease at each age. The morbidity table is to health insurance what the mortality table is to life insurance.

INSURABLE INTEREST

Simply stated, an **insurable interest** is a **financial interest** in having the life of the insured continue. In life insurance the policyowner must have an

insurable interest at the time of application for the insurance. The insured also would be required to sign the application unless a minor. Once the policy is issued, insurable interest does not need to exist. If an insured owned a life policy on his/her own life and decided to make a gift of the policy to a charity, he/she could do so. An absolute assignment could be made making the charity the owner of the policy. The charity does not need an insurable interest to own the policy.

People can insure close family members based on love and affection. If a parent insures his child, it is based more on love and affection than a financial interest.

It is understandable why insurable interest is needed at the time of application in life insurance. If it were not, a person might insure someone whose life is of no importance to him/her. In this case the policyowner might prefer the insured die so he/she could collect the death proceeds and perhaps murder the insured.

Insurable interest can exist in all of the following cases:

- A person in his/her own life
- Parent/child
- Spouses on each other
- Blood relatives
- Employer/key employee
- Partners in a partnership
- Creditor/debtor

It should be noted that the beneficiary is not required to have an insurable interest. However, most people would not purchase a policy on their life and name someone who is not financially dependent upon them or in no way has a financial interest in their life as a beneficiary.

In property and casualty insurance, an insurable interest must exist when the insurance is purchased and also at the time of loss. If you purchased a homeowners policy on a house, you would have to own or be purchasing the house. If the house burns down, you would have to own the house at that time to collect under the homeowner's policy.

CRITERIA OF IDEALLY INSURABLE RISKS

Not all risks are insurable. Insurance companies wish to insure pure risk in which there is only a chance of loss and not a chance of gain. However, there are certain characteristics that must be present for a risk to be ideally insurable.

1. Large number of homogeneous units: There has to be a large enough number of similar risks in order for an insurance company to be able to make reliable predictions.

2. Loss must be uncertain: A loss may or may not occur as there is no way to predict what is going to happen in the future. For instance, you may or may not have a car stolen. There is no uncertainty if loss occurs due to wear and tear or inherent vice. Tires wear out—that is a certainty. Rubber deteriorates through time—that is a certainty.

3. Economic hardship: You would wish to insure a car from theft if it was valued $30,000 as the loss creates a financial hardship. If the car was worth $300 and it was stolen, it would not cause a financial hardship.

4. Loss must be ascertainable: The loss must be definite as to cause, time, and amount. In other words, proof of loss is necessary and the loss must be measurable in dollars.

5. Loss must not be catastrophic in nature: Catastrophic losses are a large number of losses that occur in a short period of time such as earthquake, flood, or war. These types of perils cannot be predicted with any accuracy and are normal exclusions from insurance policies. Insurers prefer to insure exposure units that are spread over a broad geographic area. It is better to insure houses from fire in a number of areas rather than all of the houses in one neighborhood.

THE INSURANCE CONTRACT

Insurance is a way in which people protect themselves from various exposures that threaten their lives and property. In life insurance we refer to the written contract as an **insurance policy**. A contract is a legal agreement between two or more parties. In a contract a certain performance is promised in exchange for a valuable consideration. The policyholder pays a premium for the life policy and, in exchange, the company promises to pay a death benefit upon death of the insured. All legal contracts must have four elements. They are:

- **Mutual assent**
- **Legal capacity (Competent parties)**
- **Consideration**
- **Legal purpose**

Mutual assent is also referred to as offer and acceptance, mutual consent, and agreement. The applicant makes an offer by completing an application and

paying a premium. If the company accepts this offer, it issues the policy as requested. However, the company could issue the policy but perhaps rates the insured as a substandard risk when it was applied for as a standard risk. In this case the insurance company is now making the offer and the applicant will need to decide if he/she wishes to accept it and make an additional premium payment. In other words, either the company or the applicant can make the offer and the other party will need to accept in order to have agreement.

Legal capacity means that the parties entering into the contract must be of legal age, mentally sound, and not intoxicated. Minors and persons deprived of civil rights are not capable of entering into a contract. An exception is that a person under age is competent to contract for life or disability insurance or an annuity contract on his/her own life for the benefit of himself/herself or members of his/her family. A person under 16 years of age nearest birthday must have the written consent of either a parent or guardian to enter into an insurance contract. Beneficiaries of policies and insureds (unless the same person as the applicant) are not parties to the contract

Consideration is anything of value exchanged for promise of performance. Consideration could be in the form of money, an act or service, a promise, or the giving up of a legal right. In an insurance contract, the policyholder pays a premium and the insurer gives a promise to pay the benefits stated in the contract.

Legal purpose simply means that the contract cannot be illegal in intent or go against public policy. It also should be noted that the consideration given for the contract must be legal. A contract may be oral or written, but life insurance policies are in writing. Both parties (policyholder and insurer) to the contract should retain a copy of the contract.

CHARACTERISTICS OF THE INSURANCE CONTRACT

Insurance contracts have some unique characteristics that are not found in other types of contracts. The following are a number of important elements that the student of insurance should understand.

Aleatory—This has to do with the fact that performance depends upon an uncertain future event. The insurer and insured may not give and receive equal dollar value. For instance, a man purchased a $100,000 whole life policy and made one premium payment of several hundred dollars. He died shortly thereafter of an accident. The insurer paid out more than it received. Conversely, a man may have purchased a 20-year term contract and made his premium payments for 20 years. As he did not die during the 20-year period, the insurer did not have to pay a death benefit. In this case, the insured paid more for the contract.

Adhesion—The insurance company has the contract drawn and offers it to the policyowner who "adheres" to its terms. Due to this, if there were a dispute over the meaning of ambiguous language in the contract, a court normally would side with the policyowner. After all, it was the company's fault for having unclear language in the contract.

Unilateral—Contracts may be either unilateral or bilateral. An exchange of a promise for a promise makes a bilateral contract; an exchange of an act for a promise makes a unilateral contract. Life policies are unilateral contracts or one-sided contracts. Only one party is obligated to perform under the contract. That party is the insurer. The insurer is obligated to pay the death benefit as long as premiums have been paid. However, the policyowner does not have to continue making payments. The policyowner has the right to surrender a policy or allow it to lapse.

Utmost good faith—Essentially, this means the parties to a contract are dealing with each other openly and honestly with no attempts to misrepresent, deceive, or conceal material information. The insurer is relying on the applicant making truthful representations. The applicant is relying on the agent's and insurer's statements as to the benefits, features, and advantages of the policy.

Personal contract—Insurance policies are said to be personal contracts as they are a personal agreement between the insurer and the policyowner. Except for life insurance and some marine coverages, insurance is not transferable to another person without the insurer's approval. For instance, if you sell your house, you cannot give your homeowner's policy to the new buyer. However, in the case of life insurance, it is different. The policyowner may assign ownership of the life policy to another person without the insurer's approval.

Executory—Insurance policies are executory in nature as the promised performance of the insurer will not take place until a future date. In life policies a death benefit would not be paid to a beneficiary until the death of the insured person.

Conditional—Insurance policies are conditional as certain conditions must be met to make the contract enforceable. In life insurance, the insurer would need to receive the death certificate of the insured person before paying the proceeds to the beneficiary.

REVIEW QUESTIONS

1. What is the mechanism of insurance?

   A. To transfer potential loss from the many to the few.
   B. To transfer potential loss from the insurer to the insured.
   C. To spread potential loss among a small group.
   D. To transfer potential loss from the insured to the insurer.

2. The principle of indemnity has to do with:

   A. The insured should not receive more than the loss.
   B. Ambiguities in contracts are resolved in favor of the insured.
   C. Only the insurer is bound by its promises.
   D. Each party is entitled to rely upon the representations of the other without attempts to conceal or deceive.

3. Concerning the law of large numbers which of the following is true?

   A. The greater the number of insureds, the easier it is to predict individual losses.
   B. The greater the number of insureds, the easier it is to predict losses of the group.
   C. The greater the number of insureds, the harder its is to predict individual losses.
   D. The greater the number of insureds, the less predictable the losses to a group becomes.

4. For a valid contract, agreement, consideration, legal purpose, and __________ are needed.

   A. Principle of indemnity
   B. Warranty
   C. Performance
   D. Competent parties

5. Life insurance contracts are considered to be contracts between:

   A. The agent and the applicant.
   B. The insurer, the insured, and the beneficiary.
   C. The insurer and the policyowner.
   D. The insured and the beneficiary.

6. When entering a contract, any doubt or ambiguity found in the document by the person to whom it is offered will be construed against the party who drew up the contract. This is because an insurance policy is a contract of:

   A. Aleatory
   B. Perol
   C. Adhesion
   D. Uniformity

7. What does insurable interest mean in life insurance?

   A. Amount of loss must be large enough to cause a financial hardship.
   B. Financial benefits of the policy that the beneficiary will receive.
   C. Benefits that the policy will develop through time.
   D. Financial interest in having the life of the insured continue.

8. In life insurance, when must insurable interest exist?

   A. When the insured dies.
   B. When the insurance takes effect and when the insured dies.
   C. When the insurance takes effect.
   D. When the insurance takes effect and the loss occurs, but need not exist after the loss occurs.

9. What is the consideration given by the policyowner for an insurance contract?

   A. An offer
   B. A pledge to perform
   C. A unilateral promise
   D. Premium

10. Regulation of the insurance industry comes from which of the following sources?

    A. The federal government
    B. The state government
    C. Self-regulation from groups like the NAIC
    D. All the above

11. Which of the following would be considered a pure risk?

    A. Spiro goes to Las Vegas to play roulette.
    B. Simon makes investments in the stock market.
    C. Jane's house burns down.
    D. An investment firm places money in a mutual fund.

12. Which of the following would be regarded as a moral hazard?

    A. Filing a false claim
    B. Lying on an application for insurance
    C. Drug abuse
    D. All the above

13. What is a hazard?

    A. An uncertainty of loss
    B. Anything that contributes to a loss
    C. The cause of loss
    D. Indemnification

14. What is the mortality table?

    A. A table that predicts the incident of sickness and accidents at various ages.
    B. A table that predicts the number of deaths at various ages.
    C. A table that projects the earnings of an insurance company.
    D. A table that is used only in health insurance ratings.

15. In which of these cases is there an insurable interest?

    1. An insured in his own life
    2. A businessman in the life of his business partner
    3. An employee in the life of his employer
    4. A husband in the life of his spouse

    A. 1, 2, & 3
    B. 2, 3, & 4
    C. 1, 2, & 4
    D. All the above