Quiz 2

1. **Briefly** define each of the following terms.
   a) Contract of indemnity

An insurance policy in which the amount paid out depends on the amount of the loss. An automotive collision policy is an example.

   b) Valued contract.

An insurance policy in which the amount paid out does not depend on the amount of the loss. A life insurance policy is an example.

   c) Retention limit.

The maximum value of a claim that a company is required to pay before passing the claim onto their reinsurance company.

(To be correct, the answer should mention reinsurance. It is NOT the maximum claim that they will pay. That is the policy limit.)

   d) Antiselection

The principle that people with a greater probability of incurring a loss are more likely purchase insurance against that loss.

   e) Endowment insurance.

An insurance that pays a benefit either at the time of death if the person dies within a specified period or at the end of the period if the individual survives beyond the period.

2. As Director of the Actuarial Science Program, I decide to declare that the program is a "Fraternal Benefit Society" with the Actuarial Science majors as the members and me as the President. I start selling insurance to the "members." Is this legal? Explain in terms of the definition of "Fraternal Benefit Society" given in the text.

No, it is not legal. To be a Fraternal Benefit Society, the leadership must be elected. If I declare myself to be the leader, I was not elected.