b) Draw the matrix that show the best way of handling risks:

Type of loss	Loss frequency	Loss severity	**Suitable way**
1	Low	low	**Retention**
2	High	low	**Loss control system & retention**
3	Low	high	**Insurance or loss control**
4	High	High	**Avoidance or may be loss control**

⟹ 10) How does insurance reduce objective risk? Support your answer with numerical example

- **according to law of large numbers:** As the **number of exposure units increases**, **the objective risk decreases** and the company can expect the amount of loss which will face by it & it help insurance company to expect losses in advance
- **Like:**

No of exposure units	Probability of loss	Expected loss	Actual loss	$\frac{actual - expected\ loss}{expected\ loss}$ objective risk
25000	1%	25000*1% = 250	260	$\frac{260-250}{250} = 4\%$
250000	1%	250000*1% = 2500	2550	$\frac{2550-2500}{2500} = 2\%$

Objective of this rule:

- ❖ there's no (– ve) value in this rule
- ❖ make expected losses to be more closely to actual losses and this help insurance compan to determine the premium

⟹ 11) Difference between chance of loss and objective risk and support your answer with numerical example

Chance of loss	Objective risk
✓ Is the probability of frequent that an event will happen in the future. ✓ may be **the same** for two different groups ✓ **Chance of loss** = $\frac{\textbf{expected loss}}{\textbf{exposed loss}}$	✓ The difference between expected loss from actual loss ✓ objective risk gives a higher degree of accuracy ✓ may be **different** for different groups ✓ **objective risk** = $\frac{\textbf{actual} - \textbf{expected loss}}{\textbf{expected loss}}$

MCQ:

1. Objective risk is defined as:
a) The probability of loss **b) The relative variation of actual loss from expected loss**
c) Uncertainty based on a person's mental condition or state mind d) the cause of loss

2. Uncertainty based on a person's mental conditions or state of mind is known as:
a) Objective risk **b) Subjective risk** c) Objective probability d) Subjective probability

3. A peril is:
a) A moral hazard **b) the cause of a loss** c) a condition which increase the chance of a loss
d) the probability that a loss will occur

4. An earthquake is an example of a:
a) Moral hazard **b) peril** c) physical hazard d) objective risk

5-According to the law of large number, as the number of exposure units is increased
a- The chance of loss declines. b-The chance or probability of loss increases.
c-The accuracy of predictions should be better.
d-The accuracy of predictions should remain about the same.
e- None of the above.

6) The relative variation of actual loss from expected loss is an example of:
a) Objective risk b) subjective risk c) objective probability d) subjective probability

7) A defective gas line that may lead to an explosion is an example of:
a) Physical hazard b) moral hazard c) risk d) peril

8) The extra expense incurred by a person to rent a substitute car while his collision damaged car is being repaired is an example of:
a) Pure risk b) speculative risk c) potential risk d) none of the above

9) Good health habits can be classified as:
a) Loss retention b) loss prevention c) positive moral hazard d) risk avoidance

10) All of the following can be classified as casualty insurance except:
a) Ocean marine insurance b) health insurance c) workers' compensation insurance
d) Bulgary and theft insurance

11) The possibility of loss resulting from flood is an example of:
a) Static fundamental risk b) a dynamic fundamental risk c) a static particular risk
d) a dynamic particular risk e) none of the above

12) The four elements of an insurable risk
a) Require that the probability of loss be known b) include the requirement of economic feasibility
c) Must be present or the exposure cannot be insured
d) Are desirable but some insurable risk don't posses them

22) Pure risk is characterized by

a) A chance of loss and chance of gain
b) A chance of loss or no loss only
c) Certainty that loss occur
d) The chance o loss or no loss only
e) None of the above

23) Un employment would generally be considered to be

a) A static , fundamental risk
b) Dynamic fundamental risk
c) A static particular risk
d) A dynamic particular risk
e) None of the above

24) A peril distinguish from hazard is defined as

a) A condition that increase likely hood from hazard of loss
b) Cause of losses
c) Same thing as risk
d) A result of loss
e) None of the above

25) A pure risk is classified as

a) Physical risk , moral risk , morale risk
b) Fundamental , dynamic and particular risk
c) Speculative risk , enterprise risk and financial risk
d) Personal risk , property risk , liability risk and risk arising out of failure of others
e) None of the above

26) Traditionally, risk has been defined as

A) any situation in which the probability of loss is one.
B) any situation in which the probability of loss is zero.
C) uncertainty concerning the occurrence of loss.
D) the probability of a loss occurring.

27) Objective risk is defined as

A) the probability of loss.
B) the relative variation of actual loss from expected loss.
C) uncertainty based on a person's mental condition or state of mind.
D) the cause of loss.

28) Faking an accident to collect insurance proceeds is an example of

A) physical hazard.
B) objective risk.
C) moral hazard.
D) attitudinal hazard.

Answers:

1-	(√)	
2-	(X)	It is peril [not Hazard]
3-	(X)	Because there's more than one definition
4-	(X)	Insurance is the common method
5-	(X)	Particular [not fundamental] risk
6-	(√)	
7-	(√)	
8-	(X)	Under pure risk, loss is not certain because It is a situation of loss or no loss.
9-	(X)	It is the process of insurance [not hedging]
10-	(X)	Insurer can eliminate small losses through deductibles
11-	(X)	The Insurance is the most attractive not avoidance
12-	(√)	
13-	(√)	
14-	(X)	Depreciation is not a risk but it is a natural state of machines
15-	(√)	
16-	(X)	sickness is not a Hazard
17-	(X)	Risk management is not synonymous to insurance management.
18-	(X)	Someone inside the firm
19-	(X)	There are 4 ways : 1- avoidance 2- loss control 3- retention 4- Risk transfer
20-	(X)	It is a scientific
21-	(√)	
22-	(√)	
23-	(√)	
24-	(X)	Risk management is concerned primarily with function of both giant & smaller corporations
25-	(√)	
26-	(X)	The first step is identifying objectives of risk manag.
27-	(X)	Final step is selecting the best method in dealing with risk.
28-	(√)	
29-	(X)	The primarily contribution is calculating the cn & trying at select method of handling
30-	(√)	
31-	(√)	
32-	(√)	
33-	(√)	Based on law of large number.
34-	(X)	Economically feasible insurability.
35-	(X)	Bec. Insurance transfer risk but gambling create risk
36-	(√)	
37-	(X)	A premium will be lawer than befor & it is not necessary to be lawer than expected value of loss
38-	(√)	
39-	(X)	The most important consideration is the financial position of the firm & cost of insurance.
40-	(√)	
41-	(√)	
42-	(√)	
43-	(√)	