



Sample Exam

C11 Principles and Practice of Insurance

IMPORTANT

The time allowed for this exam is 3 hours.

Total marks: 200

You must hand in this paper and any paper used for rough work to the supervisor when you leave the examination room. Failure to do so may result in disqualification.

Section A: Multiple-Choice Questions

Question 1. For the following multiple-choice questions, fill in the circle of the letter that identifies the most correct answer.

Example: (A) (B) ● (D)

DO NOT MARK THE ANSWERS ON THESE PAGES.

USE THE FIRST PAGE OF YOUR ANSWER BOOK.

1. Insurance was developed as a result of the existence of
- (A) hazards.
 - (B) indemnity.
 - (C) loss.
 - (D) risk.

2. Legal liability does NOT arise from
 - (A) contracts.
 - (B) obligations to others.
 - (C) criminal acts.
 - (D) negligence.

3. The main purpose of insurance is to
 - (A) provide compensation.
 - (B) provide security.
 - (C) share the losses of a few people among many.
 - (D) create investment income.

4. Which of the following is NOT a contract of indemnity?
 - (A) A fire insurance policy
 - (B) A medical insurance policy
 - (C) A liability insurance policy
 - (D) A life insurance policy

5. Which of the following is NOT a hazard?
 - (A) An icy parking lot
 - (B) Poorly maintained heating systems
 - (C) A residence without a security system
 - (D) A high-crime neighbourhood

6. The largest single class of general insurance sold in Canada is
 - (A) automobile insurance.
 - (B) commercial property insurance.
 - (C) health insurance.
 - (D) personal property insurance.

7. Which of the following does NOT fall into the category of general insurance?
 - (A) Business interruption
 - (B) Crime insurance
 - (C) Hail insurance
 - (D) Health insurance

8. Inland marine insurance
 - (A) applies to real property only.
 - (B) deals with movable items only.
 - (C) includes an element of "transportation" or "communication" exposure.
 - (D) is not offered under most property and casualty policies.

9. Which of the following is NOT used by insurers to achieve spread of risk?
- (A) Diversity of location
 - (B) Diversity of type of risk
 - (C) Loss prevention
 - (D) Volume
10. The law of large numbers
- (A) indicates the likelihood of an occurrence.
 - (B) indicates the probability of an event occurring.
 - (C) means that predictability increases with the number of cases.
 - (D) refers to the number of losses actually occurring divided by the number of losses that could have occurred.
11. The Statutory Conditions under common law are
- (A) binding on the insurer but not on the insured.
 - (B) determined and designed by each individual insurer.
 - (C) required on all policies.
 - (D) required on those policies insuring certain classes of risk.
12. The primary responsibility of an underwriter is to
- (A) obtain the business at the best possible price.
 - (B) provide the correct and proper policy wording.
 - (C) select the risks to insure.
 - (D) sell an applicant the most appropriate policy.
13. An underwriter, who is considering the insurer's **exposure** under a policy, is calculating the
- (A) perils insured under the policy.
 - (B) hazards a risk would attract.
 - (C) number of losses that the policy should experience in a term.
 - (D) sum total of values insured under a policy.
14. A captive insurance company
- (A) always requires a fronting company.
 - (B) is a Canadian subsidiary of a foreign insurance company.
 - (C) is owned by the insured.
 - (D) is the equivalent of a mutual company.
15. An unearned premium is that portion of the policy premium that
- (A) covers the policy period that has not yet expired.
 - (B) has not been paid out as a loss or losses.
 - (C) has not been paid out as losses or as commissions to agents/brokers.
 - (D) is left over after the payment of all losses, commissions and expenses.

16. The Chief Executive Officer of a stock insurance company is primarily responsible to the
- (A) policyholders.
 - (B) Board of Directors
 - (C) company's President.
 - (D) shareholders.
17. An insurance pool is
- (A) a central rating organization.
 - (B) a joint underwriting arrangement for high hazard risks.
 - (C) a reinsurance arrangement.
 - (D) the reserve fund set up by an insurance company to pay for future losses.
18. The Office of the Superintendent of Financial Institutions is responsible and reports directly to the
- (A) Federal Cabinet.
 - (B) Minister of Finance.
 - (C) Minister of Financial Institutions.
 - (D) provincial Superintendent of Insurance.
19. Lloyds of London
- (A) consists of individual members only.
 - (B) is a large coffee house in London where traders in world commodities gather to transact business, including insurance.
 - (C) is required to meet strict Canadian government solvency requirements with respect to its Canadian operations.
 - (D) is the world's largest insurance broker.
20. Regulation of persons engaged in selling insurance to the public is controlled by
- (A) federal legislation.
 - (B) insurers with which they have contracts.
 - (C) the Insurance Brokers Association of Canada.
 - (D) the provincial governments.
21. Rules or agreements with respect to the binding of insurance coverage by brokers are
- (A) enforced by the Department of Insurance.
 - (B) laid out in the insurance contract.
 - (C) set and agreed upon between insurer and broker.
 - (D) set by the local brokers association, they are uniform and apply to every insurance brokerage firm in the province.
22. An agency/broker agreement or contract with an insurance company should include
- (A) the types of business that the insurer can write.
 - (B) the types of risks that will be reinsured.
 - (C) a list of the broker's contracts with other insurers.
 - (D) premium collection and credit terms.

23. Which of the following best describes **statute law**?
- (A) It can be changed by common law decisions.
 - (B) It can override any rule within the Civil Code of Quebec.
 - (C) It is codified law enacted by Federal or Provincial government.
 - (D) It is the law of precedent.
24. Substantive law
- (A) deals with the rights of corporations.
 - (B) establishes the rights and duties of individuals.
 - (C) protects and enforces the rights and duties of individuals.
 - (D) regulates the important or "substantial" aspects of life in society.
25. The Civil Code of Québec is
- (A) a type of statute law.
 - (B) related to peace and good order in Québec.
 - (C) the body of law related to civic government in Québec.
 - (D) the law of precedent as applied in Québec.
26. Insurance premiums collected by a broker
- (A) belong to the broker until remitted to the insurer.
 - (B) must be remitted, in full, to the insurer.
 - (C) must be held in trust until remitted to the insurer.
 - (D) must be placed in an interest-bearing operating account by the broker.
27. If a litigant is not satisfied with the decision given by the trial division of a Supreme (or Superior) Court of a province or territory, he can appeal to the
- (A) Appeal Division of the Supreme (or Superior) Court of the particular province or territory.
 - (B) Federal Court of Appeal of Canada.
 - (C) Privy Council.
 - (D) Supreme Court of Canada.
28. Which of the following is a means of discharging a contract under common law?
- (A) Frustration
 - (B) Mistake
 - (C) Misrepresentation
 - (D) Concealment
29. A contract offer may lapse because
- (A) it was not accepted within a reasonable time.
 - (B) the amount offered was not high enough.
 - (C) there was no interest from the offeree.
 - (D) there was no interest from the offeror.

30. With respect to a legal contract, consideration
- (A) can be the payment of an outstanding debt.
 - (B) cannot be of very small value, such as \$1 for the purchase of a building.
 - (C) is not necessary with respect to contracts made under seal.
 - (D) must be adequate with respect to the value of the contract as between the contracting parties.
31. Which of the following is true?
- (A) A contract is automatically void if made under duress or undue influence.
 - (B) A contract is void if the subject of the contract is illegal.
 - (C) A contract is void when, through a mutual mistake, one party is thinking of one type of subject matter of the contract and the other party is thinking of something else as the subject matter of the contract.
 - (D) The terms of a void contract can be enforced against the party whose actions made the contract voidable.
32. A material fact is one that
- (A) contributes to the description of the risk.
 - (B) could influence the acceptance of the risk.
 - (C) must be disclosed by law.
 - (D) refers to all the key information.
33. Under the Civil Code of Québec, the four requirements for a valid contract are
- (A) acceptance, agreement, capacity, and offer.
 - (B) acceptance, cause, consent, and mutual agreement.
 - (C) capacity, cause, consent, and object of contract.
 - (D) capacity, consideration, co-operation, and lesion.
34. Under Common Law, which of the following is FALSE of offer and acceptance?
- (A) Acceptance of an offer must be absolute and correspond to the terms of the offer.
 - (B) Acceptance of an offer or counter-offer must be definite and communicated.
 - (C) An offer may be withdrawn by the offeror at any time before acceptance.
 - (D) If a counter-offer is refused, the party making the counter-offer still has the option of going back and accepting the original offer.
35. Estoppel is a doctrine that prevents
- (A) a person from denying a previous statement.
 - (B) a person from making a new statement.
 - (C) an insured from denying any fact in a signed application.
 - (D) the repetition of previous statements.

36. When a reinsurer wishes to reduce its own liability on a particular risk, it may do so by arranging a
- (A) cession.
 - (B) concession.
 - (C) retrocession.
 - (D) treaty.
37. Facultative reinsurance is
- (A) a pre-arranged set up for reinsuring individual risks.
 - (B) placed on an individual case basis.
 - (C) the only alternative when underwriting information is scarce.
 - (D) the only form of reinsurance that is available for automobile risks.
38. Under The Civil Code of Québec, a **determinate** person is
- (A) one who has no legal authority to form a contract.
 - (B) the public at large.
 - (C) a general group.
 - (D) a specific individual.
39. When someone is placed back in the same financial position that he was in just prior to a loss, that is
- (A) actual cash value.
 - (B) consideration.
 - (C) contribution.
 - (D) indemnity.
40. The term **contra proferentem** means
- (A) without prejudice.
 - (B) a counter-offer made in connection with a proposed contract.
 - (C) the voluntarily acceptance of a known risk.
 - (D) that a court will interpret ambiguity in a contract against the person who drew up the contract.

(2 marks each = 80 marks)

Section B: Narrative Questions

- Question 2. Using examples, explain in detail how the insurance industry leads in the fields of loss prevention and loss reduction. (20 marks)
- Question 3. The insurance industry in many ways contributes to the well-being and security of individuals and families and of businesses in Canada. Discuss this proposition fully. (20 marks)
- Question 4. (a) **ANSWER EITHER (i) OR (ii)**
- (i) An article of The Civil Code of Québec states "Consent may only be given in a free and enlightened manner. It may be vitiated by error, fear or lesion". Fully explain the interpretation of this article. (10 marks)
- OR**
- (ii) Describe the FIVE (5) elements of a binding contract under common law. (10 marks)
- (b) Define **insurance** and explain the basic concepts under which an insurance fund must operate. (10 marks)
- Question 5. (a) Contrast physical hazard with moral hazard. Provide an example of each. (10 marks)
- (b) Describe how an insurer determines the rates to be charged for particular classes of insurance. (10 marks)
- Question 6. (a) Describe FIVE (5) factors upon which successful agency/brokerage production depends. (10 marks)
- (b) Incorporation has a number of advantages and disadvantages for brokers. Briefly discuss THREE (3) disadvantages of incorporation. (10 marks)

Section C: Application Question

Question 7. A broker submits an application for homeowners insurance to an insurance company on behalf of a client. The broker is unaware that although his client is the registered owner of the property to be insured, the insured has neglected to report that the home is being used to house a catering business. This means that the client has failed to disclose information on the insurance application.

(a) If you are the underwriter on this risk and it comes to your attention that the insured is operating a catering business from the home, what issues should you consider when you discover the actual facts about the use of the insured home? (5 marks)

(b) A kitchen fire occurs, before the insurer discovers the commercial use of the home. The damage is significant. You are the adjuster assigned to this claim. When you become aware that the insured had not disclosed the information to the insurer about the use of the home, what should you do to protect the insurer's interest? What are the consequences of not taking the proper steps to protect the insurer's interest? Explain fully. (15 marks)

