Fundamentals of Insurance Practice Exam

Select only one answer for each question.

1. Insurance plays an important role in managing financial risk. The main purpose of Insurance is to

   a. Enable the consumer to obtain a loan or a mortgage
   b. Provide employment and investment capital
   c. Allow the spread of risk
   d. Reduce losses through loss prevention and loss reduction

2. The definition of insurance in the Insurance Act includes all of the following important points, except one. Pick the exception:

   a. Payment is made only when a certain peril has damaged the object of insurance
   b. Payment is limited to the actual amount of the loss – no more and no less
   c. There is no payment for losses that are deliberately caused by an insured
   d. The indemnity must always be in the form of a sum of money; no other method is permitted by law

3. The majority of insurance companies use independent brokers to sell their insurance policies to the public. Which of the following statements does NOT apply to this system of distribution?

   a. Independent brokers are employees of the insurance companies they represent
   b. Independent brokers receive commissions from their insurers for the business they produce
   c. Independent brokers can represent more than one insurance company
   d. Independent brokers own all of their client files

4. When dealing with financial risk a person has several options available. In your opinion, which of the following is the best option for most people?

   a. Avoidance of risk
   b. Retention of the risk
   c. Controlling the risk
   d. Transfer of the risk

5. Risk as the "chance of financial loss" can be classified as either speculative or pure. Which of the following best describes the meaning of pure risk?

   a. There is no chance of financial loss
   b. There is a chance of financial gain
   c. Financial loss and financial gain are both present
   d. There is only the chance of financial loss with no chance of profiting from it

6. A contract is legally enforceable only when all legal elements are present. Only an insurance contract contains the following element:

   a. Genuine intention
   b. Legality of the object
   c. Consideration
   d. Indemnity

7. “Consideration” is required of all parties to a contract. Consideration means:

   a. Thinking about purchasing insurance
   b. An agreement by the insurer to treat the insured fairly
   c. An exchange of something of value between the parties
   d. A commitment by the broker to represent an insurance company

8. Legal capacity of the parties is an important element to a contract. Only the following party has the legal capacity to enter into a contract of insurance.

   a. Sweet Cravings Bakery
   b. Tools 4 U Enterprises
   c. Mario Montana Sportswear Ltd.
   d. Jack Daniels a.k.a. Jacks Liquors

9. Insurance brokers are often asked to provide a binder to the insured. A Binder is

   a. When the insurer has agreed to issue a policy
   b. A cover for an insurance manual
   c. When a broker has committed an insurer to a contract of insurance on any risk
   d. Never legal when it was given orally

10. All changes to an existing insurance policy must be in writing. Which document does the insurer issue when both the insurer and insured have agreed to a change in the terms of the policy.

    a. A rider
    b. An endorsement
    c. A binder
    d. A floater

11. In Canada the General Insurance Industry is strictly regulated by federal and provincial statutes. The Provincial Government performs all of the following functions, except one. Pick the exception.

    a. Supervising the terms and conditions of insurance contract
    b. Establishing premium levels for insurance contracts
    c. Licensing insurance companies to transact business in the province
    d. Monitoring the financial stability of insurers that are not federally licensed

12. The financial solvency of insurers is a crucial matter. Solvency refers to

    a. Selling shares to shareholders
    b. The ability of an insurer to pay all insured losses
    c. The payment of commissions to brokers selling the policies of the insurer
    d. Survival of the fittest

13. Both, insurance companies and brokers are considered fiduciaries. Under the Insurance Act the fiduciary responsibility of a broker requires that

    a. The broker must regularly remit the collected premiums to the insurers
    b. All policies not paid for within sixty (60) days of the effective date must be terminated
    c. Unearned commissions are held in trust to be available should the policy be terminated before expiry
    d. The full amount of the commission must be held in trust until the expiry of the policy

14. The Insurance Act determines when a contract of insurance takes effect. Coverage commences at

    a. 12:01 pm standard time at the address of the Named Insured
    b. 12:01 am standard time at the address of the location of the risk
    c. 12:01 am standard time at the address of the insurer
    d. 12:01 am standard time at the address of the Named Insured

15. The Removal Clause requires the insurer to extend coverage to another location where the insured property is kept, even if this location is not stated on the policy. Only one of the following situations would qualify for this coverage

    a. The insured moved to a new residence five (5) days ago and has not yet advised the insurer of the new location
    b. The insured keeps furniture and fixtures in a rented storage locker because there is no more room at the principle residence
    c. The insured moved personal property to a storage facility to protect it from loss because of an encroaching forest fire
    d. The insured keeps some personal property at her seasonal dwelling but only during the summer months

16. When the insurer has indemnified the insured for a loss caused by a third party, the insurer has a legal right of recovery from that party. This legal process is referred to as

    a. Arbitration
    b. Restitution
    c. Subrogation
    d. Mediation

17. The Insurance Act provides that a policy insuring the peril of “fire” must also include coverage for

    a. Windstorm and Lightning
    b. Lightning, including damage to electrical appliances and devices
    c. Lightning and all types of Explosion
    d. Explosion of natural, coal or manufactured gas and Lightning, excluding damage to electrical appliances and devices

18. Only one of the following statements regarding Statutory Condition No. 1 – Misrepresentation is correct

    a. Any description of the property that proves to be incorrect constitutes a Misrepresentation
    b. Withholding information about previous cancellations or refusal of insurance is not a Misrepresentation
    c. Statements made by the applicant, which lead the insurer to believe that the risk is better than it actually is, are considered Misrepresentation
    d. A Misrepresentation has no effect whatsoever on the coverage under the policy, even when the insurer is able to prove misrepresentation

19. All of the following statements regarding the Statutory Conditions are true, except one. Pick the Exception:

    a. The insurer has an obligation only to those parties whose name appears on the Declarations Page and who can prove insurable interest
    b. A "Material Change" is considered a change that alters the risk in a way that greatly increases the potential for some losses
    c. When a loss is caused directly by an unreported Material Change, the insurer has the right to deny that claim
    d. As long as the insured reports a Material Change promptly, the insurer rarely charges an additional premium

20. Your client has requested the termination of his insurance policy. You advise your client of the provisions of Statutory Condition No. – Termination. Which of the four provisions stated below is wrong?

    a. Written request for termination signed by all persons stated on the policy must be provided to the insurer
    b. Your client does not have to give the insurer any notice prior to the requested cancellation date
    c. As the insurer has the right to charge the insured administrative costs to process the cancellation, the premium refund is calculated on a short-rate basis
    d. When the insured terminated the policy, the insured is not entitled to a premium refund

21. In the event of a claim there are also a number of Statutory Conditions that affect both the insurer and the insured. One of the following statements regarding these conditions is incorrect. Select the statement that is incorrect.

    a. The insured must provide the insurer with a Proof of Loss as soon as practicable
    b. In the claim the insured included an article she did not even own, therefore, the insurer will only pay for those articles for which the insured can prove ownership
    c. When the insurer opts for a cash settlement, payment must be made to the insured within sixty (60) days after receipt of the Proof of Loss or less, if the contract provides for a shorter period
    d. If the insurer denies a claim and the insured wishes to sue the insurer, legal action must be taken within one year after the date of the loss

22. All of the following statements apply to the Statutory Conditions, except one. Pick the Exception:

    a. After a loss has been reported the insurer has the immediate right of access and entry to the property to investigate the loss
    b. When the insurer elects to repair or rebuild the damaged property, it must give written notice to the insured within thirty (30) days after receipt of the Proof of Loss
    c. When the insured is unable to notify the insurer of a loss and provide Proof of Loss, an agent of the insured is permitted to give notice and proof
    d. Even if the insured had a reasonable chance to protect property from loss but failed to do any such thing, this usually does not affect the claim settlement

23. The role of agents and brokers is to serve as an intermediary between the client and the insurer. Which of the following best reflects the duties of the broker?

    a. A broker acts exclusively in the best interest of the client
    b. A broker must always place insurance with the insurer that charges the lowest premium
    c. A broker must always present the client's risk truthfully and disclose all material facts to the insurer
    d. A broker does not owe any duty to the insurer he or she represents

24. The law requires that insurance brokers exercise "reasonable skill, care and diligence" in carrying out their duties. Failure to do so can result in an Errors and Omissions claim against the broker. The main reason for Errors and Omissions claims is due to

    a. Providing the client with coverage he doesn't need
    b. The failure to properly identify the client's loss exposures and offering the required coverages
    c. The failure to cancel the policy when requested by the insured
    d. A violation of the Agency Agreement

25. An Underwriter is required to perform numerous task, however, the primary function of an Underwriter is to

    a. Select those risks that are most likely to be profitable to the insurer
    b. Bind coverage on all risks the insurer accepts
    c. Set the premium rates mostly for commercial risks
    d. Process cancellation certificates and issue premium refund cheques

26. Determining whether a risk meets the criteria for insurance the Underwriter must assess the hazards that could cause a peril to occur. When checking into an applicant's prior claims history or financial condition the Underwriter is concerned about the existence of

    a. Other parties with an insurable interest
    b. Abnormal physical hazards
    c. A moral hazard
    d. Smoking material on the premises

27. Property policies are designed to insure “Direct Damage” only. Two months ago a fire caused substantial damage to an apartment building your client owns and he was shocked when the adjuster explained that a portion of the loss would not be paid out under this policy. Which part of the loss is not covered by the property policy?

    a. Damage to the building’s roof caused by fire fighters’ axes to dampen the fire
    b. Water damage to the entire structure to halt the spread of and extinguish the fire
    c. Heat damage to the siding of the undamaged part of the building
    d. Loss of rental income from the tenants who left because the building was unsafe after the fire

28. All property policies contain conditions; insurers may also include warranties. The following provisions, except one, apply to conditions and warranties. Select the Exception:

    a. A condition is a clause in a policy that requires the insured to do or not do something
    b. A warranty is a promise made by the insured that certain facts are truly as they are represented and will remain so for the duration of the policy
    c. A breach of a condition does not result in the denial of a claim so long as the loss was not caused by such a breach
    d. A breach of a warranty by the insured has the effect that the insurer will not pay a claim when this breach directly caused the loss

29. Property policies exclude certain types of property. All of the following properties are generally excluded, except one. Select the Exception:

    a. Money and securities
    b. A building that to the insured’s knowledge has been vacant for more than 15 days
    c. Automobiles and other motorized vehicles
    d. Books of account

30. The following perils, except one, are also excluded under property policies. Select the Exception:

    a. Lightning, including lightning damage to electrical devices
    b. War and Nuclear Incident
    c. Earthquake and Flood
    d. Sewer Back-up

31. Your client lost jewellery during a recent burglary and reported the loss of a matching gold necklace with pendant and earrings. However, the insured found one of the earrings under her bed, but she claimed the full set value. How will the insurer settle this loss?

    a. Your client will receive a payment based on the full value of the set
    b. Your client will be paid for the necklace and one earring, plus 10% percent to compensate for loss of value because the set is incomplete
    c. Your client will receive a settlement for the value claimed less the value of one earring
    d. Your client will receive nothing, because her claim is fraudulent

32. The Indemnity Agreement describes how the amount of a loss settlement is determined. One of the following values is not a factor in arriving at the amount of the settlement. Select this value:

    a. Replacement cost of the lost or damaged property less depreciation
    b. The financial interest of the insured in the property that was lost or damaged
    c. The future investment value of the property that was lost or damaged
    d. The amount of insurance purchased on the property that was lost or damaged

33. A fire totally destroyed the building owned by your client, I.M. Broke. The Actual Cash Value of the building was $400,000. I.M. Broke still carries a mortgage of $200,000 on his property. The building was insured for $350,000. Based on the Indemnity Agreement what is the amount of the settlement that I.M. Broke is entitled to?

    a. $400,000
    b. $200,000
    c. $350,000
    d. $150,000

34. Actual Cash Value means

    a. The value of property at the time it was purchased
    b. The re-sale value of the property
    c. Replacement cost less the amount for depreciation
    d. Replacement cost less the sentimental value the insured has in the property

35. The Standard Mortgage Clause contained in property policies provides

    a. A guarantee to the insured that the mortgage will be paid off if the insured became sick or unemployed
    b. A guarantee to the mortgagee that even if the insured breached a condition or warranty the mortgagee's interests will still be protected
    c. A guarantee that, if the policy is cancelled by the insured, the insurer will issue a separate policy to the mortgagee
    d. A guarantee that a payment will be made to the insured, if the mortgagee has breached a certain policy condition

36. All Homeowners policies define the persons who are deemed to be an Insured. All of the following persons are insured, except one. Pick the Exception:

    a. The insured's common law spouse who has lived with the insured for five years
    b. The parents who are permanently living with the insured
    c. The insured's daughter who lives in the dorm while attending university in a neighbouring province
    d. The tenant who occupies the basement suite in the insured's dwelling

37. In all Homeowners the Basis of Claim Payment on dwelling building, detached private structures and personal property is generally based on Replacement Cost. However, in certain circumstance the insurer will provide settlement only on an Actual Cash Value basis. Which of the following losses will be settled on an Actual Cash Value basis?

    a. Reconstruction at the insured location after a fire destroyed the home
    b. Replacement of the hardwood floor due to damage from a ruptured water pipe
    c. Replacement of the insured's antique doll house which was smashed by burglars
    d. Reconstruction of the fence which was blown over by a windstorm

38. All Homeowners policies include the section of “Extensions of Coverage”. Which of the following statements pertaining to this coverage section is incorrect?

    a. The insurer will cover lock replacement when the insured’s keys have been lost or stolen
    b. The insurer will cover property that was necessarily removed for up to thirty (30) days at another location
    c. The insurer will pay the cost to repair the tear out damage to a wall to replace a leaking water pipe that runs hot water to the kitchen sink
    d. The insurer will pay for loss of freezer food which had spoiled during a power failure caused when lightning struck a power station

39. Thieves broke into the home of one of your clients and stole several Personal Property items, none of which were insured individually. Of the following items your client claimed, one is subject to Special Limits under her Homeowners policy; select this item.

    a. The digital camera, which the insured purchased two years ago
    b. The computer belonging to the insured’s son, which he used for homework, networking, and playing games
    c. The insured’s stereo and speakers
    d. The insured’s laptop computer that she used for personal and business purposes

40. A fire partially damaged the insured’s garage and destroyed some of the personal property, which was stored there. The insured called you because the insurer has advised that, except for one, all of the following damaged items are subject to a special limit. Select the item for which the insured will receive the full value.

    a. An industrial pressure washer valued at $25,000 used in the insured’s business
    b. A leather coat lined with fur valued at $2,500 kept in a closet in the garage for winter storage
    c. A riding lawn mower valued at $12,000
    d. A kayak, oars and life jackets valued at $9,500

41. Your clients were forced to temporarily move out of the home after a tree, which was uprooted during a serious windstorm, hit the house causing structural damage. Coverage D – Additional Living Expenses under the Homeowners policy pays additional living expenses due to an insured loss. Which of the following expenses will not be paid under this coverage?

    a. Cost of the hotel accommodation
    b. Loss of rental income from the tenant living in the basement suite who also had to leave; the occupancy is indicated on the policy
    c. Mortgage payments to the insured’s bank until the insured is able to return home
    d. Costs to keep the insured’s dog in a kennel because the hotel does not permit animals

42. Under the Homeowners Basic Form (IBC1151) all of the following losses are excluded, except one. Select the loss that is covered under this form.

    a. Smoke damage from the fire place in the insured’s living room
    b. Damage to a water pipe which exploded as a result of water hammer
    c. Damage to the front porch caused by impact of a vehicle driven by the insured
    d. Water damage from a ruptured pipe due to freezing which occurred while the insured was away on a short ski holiday and returning from it on the fourth day

43. The Homeowners Basic Form (IBC1151) insures loss or damage caused by Windstorm or Hail. Only one of the following losses would be covered under this peril; select the loss for which coverage is provided.

    a. Damage to the exterior and interior during a severe windstorm which had ripped off a section of the roof on the insured's house
    b. The radio and TV antennae permanently installed on the insured's property collapsed during a storm
    c. Collapse of the insured's storage shed caused by the accumulation of snow during a snowstorm with winds reaching 50 km/hr
    d. Damage to the interior of the house caused by heavy rain that entered through a window, which was left open by the insured

44. The Homeowners Basic Form (IBC1151) provides coverage for Glass Breakage. Under this peril all of the following losses, except one, are insured. Select the loss for which coverage is excluded under this form.

    a. While practicing his golf swing in the backyard a flying golf ball shattered a large pane of glass of the enclosed sunroom
    b. Accidental breakage occurred during a party when one of the guests stepped into the closed glass patio door
    c. Breakage of the glass table top which slipped out of the helpers' hands during the move to the insured's new residence
    d. Breakage of the large picture window at the front of the insured's house caused by a rock thrown up by the wheels of a passing vehicle

45. Although the Homeowners Comprehensive Form (IBC1155) insures on the basis of "all risks of direct physical loss or damage" coverage is subject to conditions and exclusions. All of the following losses, except one, are excluded; select the loss, which is covered by this form.

    a. Damage to the roof caused by raccoons, which tried to get into the attic
    b. Crack in the foundation wall due to the settling of the ground over time
    c. Wear and tear of the furniture upholstery due to continuous use
    d. Smoke damage to family room from the fireplace

46. Because of its broad coverage the Homeowners Comprehensive Form (IBC1155) offers many advantages to an insured. This form insures all of the following losses, except one. Select the loss that is not covered.

    a. Damage to the garage door when the insured accidentally backed into it
    b. Damage to carpeting when the insured spilled a gallon of paint on it
    c. Damage to the insured's dwelling caused by an earthquake tremor
    d. Loss of the insured's watch down a storm drain because the strap suddenly broke

47. Regardless of which coverage is selected the underwriting is the same for all Homeowners Forms. The amount of insurance applicable to Coverage B – Detached Private Structures is

    a. 10% of Coverage A – Dwelling Building, which is included in the amount of insurance stated for Coverage A
    b. 10% of Coverage A – Dwelling Building, which is in addition to the amount of insurance stated for Coverage A
    c. 5% of Coverage A – Dwelling Building, which is included in the amount of insurance stated for Coverage A
    d. 20% of Coverage A – Dwelling Building, which is in addition to the amount of insurance stated for Coverage A

48. Your client advises you that he does not have a single detached private structure on his property, nor does he want to insure his personal property at the limit his policy automatically provide. Which of the following statements regarding how Homeowners Package policies work is correct?

    a. It is possible to remove the coverage for detached private structures from the policy, as long as the insured can prove that he has no such structures on the premises
    b. It is possible to decrease the limit of insurance for personal property, provided the insured completes an inventory with photographs
    c. Anything covered in a homeowner policy can be changed or deleted at the request of the insured
    d. Limits cannot be changed nor can coverages be removed from the Package, but the limits automatically provided by the policy can be increased, if they are not sufficient

49. All of the following statements regarding the Condominium Unit Owners Form (IBC1132) are correct, except one. Select the statement, which is incorrect.

    a. This form covers the purchase value of the unit, plus the value of personal property and all improvements and betterments made by the insured
    b. This form is designed to cover the value of personal property and all improvements and betterments made by the insured
    c. This form is designed to cover the value of personal property, unit improvements and betterments made by the insured, and Loss Assessment
    d. This form provides coverage for personal property and unit improvements and betterments made by the insured on a Replacement Cost basis

50. The Loss Assessment coverage included in the Condominium Unit Owners Form (IBC1132) would respond to pay in all of the following instances, except one. Select the exception.

    a. When the Condominium Corporation carries a large deductible on its policy
    b. When the Condominium Unit Owner carries a large deductible on his policy
    c. The Condominium Corporation's policy only pays a portion of a partial loss because of a co-insurance penalty
    d. The Condominium Corporation's policy does not respond to pay a loss because the corporation breached a policy condition

51. Commercial property insurance policies are designed to insure property, which has a business or commercial use. The Commercial Property Insurance Broad Form (IBC4037) is the policy that provides commercial risks with the broadest coverage. It covers loss or damage from all of the following, except one. Select the one, which is not covered.

   a. All sources of smoke damage, except from agricultural smudging or industrial operations
   b. Vehicle impact damage to building even when operated by the insured or an employee of the insured
   c. Theft of money from a cash register
   d. Water damage resulting from the rupture or freezing of a water pipe

52. When determining the required premium for insuring commercial property the underwriter will first establish the fire rate. For this purpose the underwriter will consider all of the following factors, except one. Select the one, which is not a factor in determining the fire rate.

   a. The use or occupancy of the building by the insured and others
   b. The type of construction of the building
   c. The type of public and private fire protection
   d. The number of employees in the insured's business

53. All commercial property insurance policies describe the classes of property insured. Under "building" all of the following values, except one, are included. Select the value, which is not covered under "building".

   a. A large neon sign displaying the company name, which the insured erected on the premises
   b. Air conditioning units mounted on the roof of the building
   c. Building materials on the insured's premises for use in the construction of a new warehouse
   d. A live palm tree surrounded by other growing plants installed in the centre of the entrance of the insured's office building

54. Your client is leasing retail space in the local shopping mall. Before she is ready to open her business she is renovating the premises and installing new floor covering, wall paneling, light fixtures and a security system, which is wired into the electrical system of the mall building. As her broker you advise her that these values

   a. Need to be insured under the landlord's building insurance because once installed they become a permanent part of the building
   b. Need to be insured as Building coverage within her own property policy
   c. Need to be insured under her own property policy by including these values in the amount of insurance for equipment
   d. Don't need to be insured at all, because in the event of a loss the landlord's insurance will automatically cover the cost to replace or repair the improvements she has made

55. One of the clauses contained in Commercial property insurance policies is the Co-Insurance Clause. The purpose for including this clause in the policy is to

   a. Limit the claims payment after a partial loss when the insurer finds that the insured has deliberately underinsured the values
   b. Impose a penalty for underinsuring regardless whether a loss is a total or partial loss
   c. Penalize the insured for underinsuring when the loss is less than 2% or $5,000
   d. Penalize the insured for insuring values that are greater than required by this clause

56. A fire recently damaged the building owned by your client. The loss is estimated at $50,000. The building was valued at $500,000; however, your client has insured it for $300,000. The co-insurance requirement is 80%. Using the co-insurance formula, how much of this loss is the insured required to absorb?

    a. $37,500
    b. $50,000
    c. $12,500
    d. $25,000

57. Another important clause found in most commercial property insurance policies is the Reinstatement Clause. The effect of this clause is that

    a. After a loss has been paid by the insurer the insured must purchase additional insurance equal to the amount of the loss
    b. After a loss has been paid the original amount of insurance does not change but the insured is charged an additional premium
    c. After a loss has been paid by the insurer the amount of insurance stated on the policy does not change nor does the insured have to pay any additional premium
    d. After a total loss the insurer will cancel the existing policy and then issue a new policy with a higher premium

58. Generally, commercial property policies cover stock and equipment only while at the location stated on the policy. However, businesses usually have an exposure to loss of property away from the business premises and, therefore, need to add coverage at a temporary location. Temporary Location means

    a. A location, which is not owned, rented or controlled by the insured in whole or in part
    b. The insured's garage where stock or equipment is temporarily stored
    c. A vehicle carrying the insured's stock or equipment until it arrives at the premises of the insured
    d. A booth at a trade show, where the insured is displaying their manufactured goods

59. Your client is transporting goods in their own vehicles and, because he is concerned about theft of property from a vehicle, has purchased the Commercial Building, Equipment and Stock Broad Form. The insurer has imposed the "Locked Vehicle Warranty", which requires the insured to

    a. Lock the vehicle securely at all times, except during business hours
    b. Never to leave the vehicle unattended, when is contains the insured property
    c. Lock the vehicle only when away from the business premises
    d. Keep the insured property in a fully enclosed metal compartment in or on the vehicle, close all windows and lock all doors when the vehicle is left unattended

60. Loss of property, money and securities due to burglary, robbery or theft is a major concern for many business owners. For this reason, your client has purchased Safe Burglary insurance. All of the following statements regarding this coverage are correct, except one. Select the statement that is incorrect.

    a. To qualify for this coverage the safe must be equipped with a combination lock
    b. This coverage will respond to a loss of property from a safe regardless of the cause, so long as the insured is able to prove the value lost
    c. This coverage will respond to a loss only when the insured is able to prove that the safe was locked, which is evidenced by visible signs of forced entry into the safe
    d. This coverage will also respond to a loss when the safe holding the insured property has been removed from the premises by thieves

61. Owners and contractors can purchase the Builder's Risk – Broad Form to insure buildings while in the course of construction. This policy is designed to insure all of the following property, except one. Select the property, which is not covered by this Form.

    a. Materials and supplies owned by the insured and others used in construction and forming part of the completed project
    b. All contractors' tools and equipment on the construction site
    c. Trees, shrubs and plants for landscaping when part of the contract
    d. Temporary buildings, such as trailers, scaffolding and hoarding

62. Coverage under the Builder's Risk – Broad Form usually ends automatically

    a. Upon the expiry of the policy term
    b. Thirty (30) days after construction is completed
    c. When construction of the project is completed and the building is occupied
    d. Thirty (30) days after the building is occupied by the owner

63. Your client owns a souvenir and gift shop in a small local strip mall. One of the other mall occupants is a family restaurant that had a kitchen fire last year. Thankfully, her business was not affected, however, she is concerned that a serious fire could close her business for several months resulting in a substantial loss of income. For this reason, she has decided to purchase Business Interruption insurance. All of the following, except one, are characteristics of Business Interruption insurance. Select the one characteristic, which is not applicable to this coverage.

    a. Business Interruption insurance is designed to indemnify the insured for loss of income and loss of profit
    b. Business Interruption insurance is triggered by a loss covered under the insured's property policy
    c. Payment under Business Interruption insurance is not restricted to the expiry of the policy
    d. Business Interruption insurance pays for the cost to order new equipment and supplies to restart the business as quickly as possible

64. One of the main differences between the Earnings and the Profits Form is how long the insurer will pay for loss of income. Your client has asked you to explain up to how long payment will be made under the Earnings Form. You give her the following answer:

    a. Payment under this Form starts on the date of the loss and continues until the property has been reinstated, however, not exceeding twelve (12) months
    b. Payment under this Form starts on the date of the loss and continues until the profits are at the same level as before the loss
    c. Payment under this Form starts on the date of the loss and continues until the policy expires
    d. Payment under this Form starts on the date of the loss and continues until the end of twelve (12) months even if the insured has reopened the business after three months

65. Some businesses must resume operations as quickly as possible after a loss, which may lead to substantial expenses. This exposure can be insured under Extra Expense Insurance. Which of the following expenses is not covered by this insurance.

    a. Rental costs for a temporary location until the insured's premises have been restored
    b. Bonus paid to the contractor to prepare the temporary location for occupancy
    c. Mortgage payments on insured's building while it is being rebuild after a fire loss
    d. Overtime salaries paid to employees for the extra help required to resume operation

66. In Canada we have laws that deal with both civil and criminal wrongs. The law that addresses wrongs against society is called

    a. Tort Law
    b. Civil Law
    c. Criminal Law
    d. Statute Law

67. All laws are not only created for setting standards of conduct, they also provide a remedy when wrongs are done. The remedy in Civil Law consists of

    a. Punishment in the form of fines, penalties or imprisonment
    b. Compensation to be paid to the party who has suffered a wrong done by another
    c. Restitution in the form of a special performance for a wrong done to another
    d. Retribution against the person who committed the wrong

68. The person who files legal action against another is called the

    a. Tortfeasor
    b. Plaintiff
    c. Defendant
    d. Complainant

69. Civil Law covers two areas, Tort Law and Contract Law. In Tort Law an action will only be successful when the plaintiff can prove all of the following elements, except one. Select the one, which is not an element of a tort action.

    a. The plaintiff must show that the defendant owed a moral duty of care
    b. The plaintiff must show that the defendant owed a legal duty of care
    c. The plaintiff must show that the defendant breached the legal duty of care
    d. The plaintiff must prove that damages were suffered as the proximate result of the defendant's action

70. The main legal system in all provinces, except Quebec, is the Common Law System. We also have Statute Law, which differs from Common Law. All of the following statements regarding Statute Law are true, except one. Select the statement that is false.

    a. Statute Law is written law
    b. Statute Law is based on precedent
    c. Statute Law is enacted by federal or provincial legislation
    d. Statute Laws can be set for acts where no precedent exists

71. In Common Law, persons who enter the premises of an occupier are categorized according to the purpose of their presence. The legal duty of care owed to an invitee is

    a. To make the premises safe from any danger whatsoever
    b. To warn the invitee of any dangers on the premises, which are known to the occupier
    c. To protect the invitee from any dangers the occupier is aware of or should have been aware of
    d. To refrain from causing intentional harm to the invitee while on the premises

72. Matters of legal liability have been established in precedents set by the courts. The following statements regarding legal liability are true, except one. Select the statement, which is false.

    a. An occupier who hires an independent contract is not liable for damages arising out of the contractor's actions, as long as care was taken in selecting the contractor and the work to be done was reasonable
    b. Generally, employers are responsible for the acts of their employees while in the course of their duties
    c. Bailees for hire who have temporary custody of a customer's personal property for the purpose of repair, must exercise the highest duty of care
    d. When two or more parties have acted negligently but cannot agree to share the liability equally, the courts will hold each party liable for the full amount of the damages

73. All of the following statements are correct in respect to the legal precedents, except one. Select the statement, which is incorrect.

    a. Parents are always held legally liable for the acts of their children
    b. The owner of a building with multiple occupancies is responsible for the condition of the common areas only
    c. When protected under Workers Compensation employees do not retain the right to sue the employer for injuries sustained in a work-related accident
    d. Both the occupier and independent contractor must share the liability when the work performed by the contractor is inherently dangerous

74. The majority of liability policies have certain characteristics in common. All of the following characteristics, except one, apply to most liability policies. Select the one, which does not apply.

    a. The insurer covers the liability of the insured for bodily injury and property damage caused to a third party
    b. The liability policy covers payment for compensatory, exemplary and punitive damages, and nominal damages awarded by the courts
    c. Payment is made only when the insured is found legally liable for bodily injury and property damage
    d. Payment of compensatory damages is made only for unintentional torts

75. Most liability policies provide coverage on an occurrence basis. All of the following statements, except one, correctly describe what the policy covers. Select the statement, which is incorrect.

    a. The amount of insurance stated on the policy is the maximum amount payable for all occurrences, which happened during the policy period
    b. The policy covers bodily injury or property damage resulting from an accident
    c. The policy covers bodily injury or property damage caused by an exposure to a harmful condition over a long period of time
    d. The amount of insurance stated on the policy is available for each occurrence during the policy period

76. Under liability insurance the insured must meet all of the following requirements, except one. Select the answer, which is does not apply in respect to this insurance.

    a. Any occurrence, claim or action the insured becomes aware of must be reported promptly to the insurer
    b. The insured must fully cooperate with the insurer to investigate, defend or settle a claim against the insured
    c. The insured must not pay any costs, except first aid expenses, without the express permission of the insurer
    d. The insured must use every means possible to deter a third party from making a claim

77. The liability policy also contains the "Supplementary Payments" Insuring Agreement. All of the following statements regarding "Supplementary Payments" are true, except one. Select the statement that is false.

    a. All costs covered under this Insuring Agreement are paid in addition to the limit of insurance stated on the policy
    b. The amount of damages awarded in excess of the limit of insurance are covered under this Insuring Agreement
    c. Supplementary Payments cover all legal costs incurred to establish a defense in a claim
    d. This Insuring Agreement covers the interest on damages awarded from the date of the judgement until payment is made to the third party, but only for those amounts that within the limit of insurance

78. Section II under all Homeowners Forms and other habitational package policies covers the Personal Liability of the Insured. This coverage is designed to insure

    a. The legal liability of insureds in their role as private citizens anywhere in the world
    b. The legal liability of insureds arising out of personal activities only within Canada
    c. The personal and professional liability of insureds arising out of activities anywhere in the world
    d. The legal liability of insureds as private citizens including the liability arising out of the ownership and use of an automobile

79. The definition of premises under Section II automatically includes all of the following locations, except one. Select the location, which is not included.

    a. Rental property owned by the insured, which is stated on the policy
    b. A summer cottage rented by the insured during a three week vacation
    c. A vacant lot on which the insured intends to build a house to be occupied as the new principal residence
    d. Land owned by the insured, which is used as pasture for the insured's herd of cattle

80. Coverage E – Personal Liability would respond to pay this claim only

    a. Deliberate damage to the hotel room rented by the insured's daughter during a graduation party
    b. Damage to a dishwasher belonging to a friend, which occurred during attempted repairs carried out by the insured
    c. Bodily injury sustained by the insured during a fall on the front steps of the home
    d. Bodily injury sustained by the insured's residence employee when the defective stepladder supplied by the insured collapsed under her

81. All of the following statements regarding Coverage F – Voluntary Medical Payments are true, except one. Select the statement, which is false.

    a. There is no need to establish the insured's negligence before payment is made to cover medical expenses of an injured third party
    b. Payments for medical expenses are made for up to one year from the date of the accident
    c. Coverage is provided only when the third party does not have other health insurance, which would pay the medical expenses
    d. Coverage is provided for medical payment incurred by an insured while traveling outside Canada

82. Coverage G – Voluntary Payment for Damage to Property would respond to pay in the following instance only:

    a. The insured smashed the computer at work in fit of rage, the employer is demanding to be reimbursed for the damage
    b. The insured's 10-year old son deliberately through a rock into the neighbour's window because he was chastised for swearing
    c. The insured's 14-year old son spray-painted the neighbour's garage door just for fun
    d. The insured damaged his own riding lawn mower and was denied a claim under Section I of his Homeowners Policy

83. Your client, who owns and operates a Pizza Take-out and Delivery Service, has just received notice of a bodily injury claim by a customer against his business. The customer alleges that he bit on a chicken bone in the topping of his pizza and broke a tooth, which required substantial dental work. His business liability exposures are covered under the Commercial General Liability Policy. Which of the following coverages under this policy would respond to this claim?

    a. Premises and Operations Liability
    b. Personal Injury Liability
    c. Products Liability
    d. Completed Operations Liability

84. A business may be liable for causing a Personal Injury to a third party. All of the following are "Personal Injury" claims, except one. Select the one, which is not a Personal Injury claim.

    a. Claim for a broken hip caused by the collapse of a display chair the customer sat on
    b. Claim by a tenant against the landlord for wrongful entry into the tenant's apartment
    c. Claim for false arrest by a customer, who was wrongfully detained for shoplifting
    d. Claim against a business owner by a competitor for making slanderous remarks about his business practices

85. Professionals require a special liability policy, which covers claims arising out of the rendering or failure to render professional services. A doctor would require this particular liability insurance:

    a. Personal Injury Liability Insurance
    b. Malpractice Liability Insurance
    c. Errors and Omissions Liability Insurance
    d. Medical Expenses Insurance

86. Travel insurance is highly recommended for those who travel outside the province for business purposes or a vacation. There are several factors that must be considered, when determining the premium for a single trip. All of the following factors, except one are applicable. Select the one, which is not a factor in establishing the premium.

    a. The length of the trip
    b. The destination of the trip
    c. The method of transportation
    d. The age and health condition of the applicant

87. Travel insurance is designed to cover the medical expenses related to only one of the following conditions. Select the condition to which this insurance would respond.

    a. Pregnancy, childbirth or miscarriage within eight weeks of the expected delivery date
    b. Injury sustained as a result of a skydiving accident
    c. Hospitalization due to a drug overdose
    d. Emergency medical treatment required due to food poisoning

88. In British Columbia, the administrative functions related to licensing, handling complaints, and the disciplining of brokers are the responsibility of

    a. The Superintendent of Financial Institutions in Ottawa
    b. The Superintendent of Insurance in British Columbia
    c. The Insurance Council of British Columbia
    d. The Insurance Brokers Association of British Columbia

89. Many provinces, including British Columbia, have adopted the Step-Licensing system. All of the following statements regarding this system are correct, except one. Select the statement, which is incorrect.

    a. There are three levels of license established under the Step-Licensing system
    b. A broker only qualifies for a higher level of license when he or she has met the educational requirements applicable to the specific level of license
    c. A Level III – License permits a broker to own or manage a brokerage
    d. The Step-Licensing system requires only one initial licensing course, higher levels of license can be obtain upon proof of a specified number of years of working as a broker

90. A high ethical standard is expected of all licensed brokers in conducting the affairs of this business. The Insurance Act sets out the minimal ethical behaviour that brokers must subscribe to; contravention of this standard may result in the termination of the license. A license may be terminated in all of the following situations, except one. Select the situation that would not result in the termination of the license.

    a. A broker is found guilty of misrepresentation, fraud or dishonesty
    b. A broker has offered a client a golf club membership, provided the client brings all his insurance business to the broker
    c. A broker has offered a client a substantial premium discount, which was authorized by the insurer
    d. A broker has failed to remit the collected premiums to insurer as required under the terms of the Agency Agreement

End of Practice Exam