

C12 INSURANCE ON PROPERTY – PART 1

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)

<p>DO NOT MARK THE ANSWERS ON THESE PAGES.</p> <hr/> <p>USE THE FIRST PAGE OF YOUR ANSWER BOOK.</p>

Part 1 ALL STUDENTS

- Which of the following losses is covered under the Basic Fire Policy?
 - Lightning strikes the insured's fireplace chimney and scatters the brickwork.
 - The insured is caught in a civil war while travelling overseas and his luggage gets blown up.
 - The insured owns several rental houses, one of which he knows has been empty for the last six months; it is now vandalized and burns down.
 - While soldering the leg on a brass table, the insured burns a hole through it.

2. In the Basic Fire Policy, the amount recoverable for an insured loss is
- (A) the replacement value of the property destroyed or damaged.
 - (B) the amount of the contractor's estimate for repairs.
 - (C) the least of the actual cash value, the amount insured, or the insured's interest in the property.
 - (D) whatever amount the insured and insurer agree upon at the time of the claim negotiations.
3. Under the Basic Fire Policy, when property is moved from the described location to protect it from further loss,
- (A) coverage is automatically terminated under the policy.
 - (B) coverage is extended to the new location for a period of no less than 90 days.
 - (C) the amount of coverage in force is the difference between the amount of insurance and the loss incurred before the property was removed.
 - (D) coverage is available only if an endorsement is issued for the new location.
4. The subject matter of a fire insurance policy is property
- (A) in which the insured has an interest and is subject to loss or damage.
 - (B) owned by the insured for which he has an outstanding lien or mortgage.
 - (C) in the care, custody or control of the insured.
 - (D) described in the policy, in which the insured has an interest.
5. If the insured suffers a total loss, coinsurance
- (A) will be used to calculate the amount of the insured loss.
 - (B) will be used to calculate 80% of the loss which is payable to the insured.
 - (C) is not a factor in the amount paid under the policy.
 - (D) is a factor used to determine the automatic reinstatement coverage.
6. If the owner of a building worth \$200,000 buys \$160,000 of insurance on a policy with a 90% Coinsurance Clause and a 2% Waiver of Coinsurance Clause, then suffers a loss of \$18,000, his recovery under the policy will be
- (A) \$ 3,600.
 - (B) \$ 14,400.
 - (C) \$ 16,000.
 - (D) \$ 18,000.
7. The main benefit of a Mortgage Clause is that
- (A) it protects the mortgagee in the event of a loss even if the insured breaches a policy condition.
 - (B) it reduces moral hazard by showing that the insured building is properly financed.
 - (C) it shows the lender that the financed building is covered by insurance.
 - (D) the mortgagee will be notified by the insurer in the event of a loss.

8. Under the Automatic Reinstatement Clause, the
- (A) amount of insurance is constant for the full policy period.
 - (B) insured typically pays a pro rata additional premium to restore the policy limit after a loss.
 - (C) insurer retains the full premium if the insured terminates the policy after a loss.
 - (D) original amount of insurance is restored at the insured's request.
9. A hostile fire
- (A) is a fire that escapes its intended confines.
 - (B) is an inevitable loss rather than a fortuitous one.
 - (C) is excluded under a fire insurance contract.
 - (D) results from the fraudulent action of the insured.
10. The Replacement Cost Endorsement usually includes which of the following conditions?
- (A) Other policies covering the insured property for the same perils and interest must not have Replacement Cost Endorsements.
 - (B) Payment will be made for new material of like kind and quality.
 - (C) Replacement may be made at the insured's convenience.
 - (D) Settlement will be made immediately following the loss so the insured can use the insurance money to pay for the replacement.
11. In Quebec, insurance contracts are regulated by which legislation?
- (A) The Civil Code
 - (B) The Financial Institutions Act
 - (C) The General Conditions
 - (D) The Statutory Conditions
12. Which of the following is true of all risks property policies?
- (A) Anything that is not specifically excluded is covered.
 - (B) There is one all risks wording used by all insurers throughout the world.
 - (C) These policies cover losses from every cause.
 - (D) These policies provide insurance against specified risks and all types of damage.
13. Under the Residential Basic Form or Building and/or Contents forms, which of the following would be included as an **insured**?
- (A) The named insured's estranged husband, living in an apartment in another part of the city
 - (B) The named insured's mother in the house next door
 - (C) The 19-year-old daughter of the named insured, living at home
 - (D) The 25-year-old daughter of the named insured's best friend, temporarily boarding with her while attending university

14. Under the Residential Basic Form or Building and/or Contents Named Perils Form, if the building is under construction or vacant, loss or damage will be excluded for which of the following perils?
- (A) Falling Object
 - (B) Impact by Vehicle
 - (C) Riot
 - (D) Water Damage
15. Which of the following losses is covered under the Residential Basic Form or Building and/or Contents forms?
- (A) A glass tabletop is broken when the light fixture above it falls down.
 - (B) Earthquake causes the insured house to collapse.
 - (C) While the insured is away overnight, the pipes freeze and burst, causing water damage.
 - (D) While the insured is out, a sudden rainstorm pours water in through windows left open and damages the furniture and rugs.
16. Under the Homeowners forms, the Personal Property Away from Premises extension of coverage includes property removed
- (A) permanently to another location that is not owned by the insured.
 - (B) and for which a value is provided to the insurer when the property is removed.
 - (C) for a maximum of seven days to a location owned by the insured.
 - (D) temporarily to another location anywhere in the world.
17. The Civil Code of Quebec states that loss by lightning
- (A) is excluded under the fire insurance policy.
 - (B) must be added as an additional peril to the fire insurance policy.
 - (C) is covered only if fire ensues from it.
 - (D) is regarded as loss by fire even if there is no fire.
18. The total amount of insurance applicable on several buildings may, when a loss occurs, be apportioned by the ratio of the values in each building to the values in all buildings. This provision is known as the
- (A) Average Distribution Clause.
 - (B) Deferred Payment Clause.
 - (C) Rebuilding Clause.
 - (D) Stated Amount Clause.
19. War is an example of which general category of exclusions usually found in all risks policies?
- (A) Those better covered by other insurance forms
 - (B) Uninsurable losses
 - (C) Those that require additional underwriting
 - (D) Wear and tear losses

20. For people who live in rented premises, the Tenants Comprehensive Form
- (A) contains no provisions for paying for physical damage to the dwelling caused by burglary.
 - (B) covers against loss caused by named perils only.
 - (C) provides all risks coverage of contents.
 - (D) provides all risks coverage of contents but does not include liability coverage.
21. Which of the following is true of condominium ownership?
- (A) Condominium unit owners must insure their parts of the common elements.
 - (B) Condominium unit owners are assessed a monthly rental fee for the space inside their units.
 - (C) The condominium corporation or condominium syndicate does not provide contents insurance for the unit owners.
 - (D) The condominium corporation or condominium syndicate never owns the land on which the building stands.
22. A **replacement cost contract**
- (A) denies the principle of good faith.
 - (B) will pay “new” for “old”.
 - (C) is a contract of compensation.
 - (D) will pay for a new item to replace an item lost, destroyed, or damaged, but will deduct therefrom the accumulated depreciation on such item.
23. Which of the following is true of the Newly Acquired Articles Clause in (Scheduled) Personal Articles Insurance?
- (A) It automatically extends coverage to newly acquired articles reported within 30 days.
 - (B) The insured must supply a description of the newly acquired article, as well as the value and date of acquisition, on the next renewal date of the policy.
 - (C) It extends coverage to newly acquired articles of a type not already insured.
 - (D) It extends coverage to newly acquired articles up to the policy limit.
24. In (Scheduled) Personal Articles insurance, the **agreed value** of property insured on a valued basis is
- (A) an amount of insurance that corresponds to the appraised value of insured property.
 - (B) generally used for property that depreciates in value.
 - (C) the equivalent of its actual cash value.
 - (D) the value of insured property agreed to after a loss.

25. In Outboard Motors and Boats policies, the Full Average clause
- (A) mandates that the insured carry insurance of not less than 100% of the property's actual cash value.
 - (B) penalizes the insured if an appraisal was not provided to the insurer at the time of purchasing insurance.
 - (C) mandates that the insured carry insurance of not less than 100% of the property's replacement cost at the time of loss.
 - (D) penalizes the insured for underinsurance at the time of loss.

Part II ANSWER EITHER GROUP A OR GROUP B

GROUP A (COMMON LAW PROVINCES)

- A26. In the common law provinces, which of the following regulates insurance contracts?
- (A) The Financial Institutions Act
 - (B) The Insurance Acts
 - (C) The Statutory Conditions
 - (D) The Policy Conditions
- A27. Statutory Conditions in the common law provinces
- (A) are binding on the insurer but not on the insured.
 - (B) must be printed in every fire insurance policy according to the insurer's own wording.
 - (C) must be printed in every fire insurance policy exactly as set out in the Insurance Acts.
 - (D) have no effect if they are not printed in the fire insurance policy.
- A28. Statutory Condition 1 (Misrepresentation): This Statutory Condition allows the insurer to void the contract if the applicant (the insured)
- (A) described the property falsely, to the detriment of the insurer.
 - (B) misrepresented any circumstance about the risk.
 - (C) omitted any circumstance about the risk.
 - (D) all of the above
- A29. Statutory Condition 5 (Termination): This Statutory Condition provides that, when an insurance policy is terminated by the insurer, the refund premium shall be the excess of premium paid over the
- (A) pro rata premium for the expired time.
 - (B) pro rata premium for the expired time, subject to the insurer's minimum retained premium.
 - (C) short rate premium for the expired time, provided the insurer waives any minimum retained premium.
 - (D) short rate premium for the expired time, subject to the insurer's minimum retained premium.

- A30. Statutory Condition 10 (Entry, Control, Abandonment): This Statutory Condition provides that the insurer
- (A) must survey and examine loss to insured property at the insured's convenience after a loss.
 - (B) must consent to any abandonment of insured property to it by the insured.
 - (C) is entitled to control or possession of insured damaged property.
 - (D) must begin appraising or estimating loss to insured property immediately after the loss.
- A31. Statutory Condition 13 (Replacement): Under this Statutory Condition,
- (A) an insured may elect to have damaged property repaired, rebuilt, or replaced.
 - (B) an insurer may elect to have damaged property repaired, rebuilt, or replaced.
 - (C) the insured receives a cash settlement to purchase replacement property for that which was damaged or destroyed.
 - (D) when the replacement option is chosen, there is unlimited time for completion of the work.
- A32. The Stated Amount Coinsurance Clause
- (A) specifies the minimum amount of insurance in dollars.
 - (B) includes a more restrictive Waiver of Coinsurance Clause than the standard Coinsurance Clause.
 - (C) specifies the minimum amount of insurance as percentage of value.
 - (D) expires with the policy.
- A33. Several factors affect the premium for the Property in Transit coverage. Which is NOT a factor in calculating the premium?
- (A) The distance that the property is being transported
 - (B) The insurer's limit of liability for property in transit
 - (C) The perils applying to property in transit
 - (D) The probable frequency of loss ascertained by the insurer
- A34. When property is covered under a Residential Basic Form and is also specifically described under a Personal Articles form, how is a loss on that property apportioned between the two forms?
- (A) Neither the Residential Basic Form nor the Personal Articles form pays because double insurance is prohibited.
 - (B) The Residential Basic Form and the Personal Articles form each pays half of the loss.
 - (C) The Residential Basic Form pays first.
 - (D) The Personal Articles form pays up to its limit first.

- A35. Which of the following is true of the Emergency Removal Expense coverage in the Mobile Homeowners Form?
- (A) It is an automatic extension of Coverage A.
 - (B) It increases the amount of insurance.
 - (C) The deductible applies to this allocation of coverage.
 - (D) The moving expenses covered are similar to salvage expenses under the Statutory Conditions.
- A36. The Mobile Homeowners Form
- (A) includes collision coverage for the property while in transit.
 - (B) has a replacement cost option on the building.
 - (C) includes all furnishings attached to the building as part of the building coverage.
 - (D) provides coverage similar to that of the Homeowners Broad form.
- A37. Which of the following is true of the Tenants Comprehensive Form?
- (A) It includes dwelling improvements and betterments acquired at the insured's expense.
 - (B) It extends coverage for the cost of repairs to walls torn out to repair water damage.
 - (C) It extends unlimited coverage for dwelling damage caused by attempted theft.
 - (D) Its coverage for outdoor shrubs and plants is the same as in the Homeowners Comprehensive Form.
- A38. Coverage under Personal Articles insurance
- (A) applies only in Canada and the United States of America.
 - (B) is for named perils only.
 - (C) is subject to the Deductible Clause.
 - (D) usually provides a specific amount of insurance for each item.
- A39. A valuable painting hanging in your living room is most broadly covered under
- (A) Personal Effects insurance.
 - (B) Homeowners Comprehensive insurance.
 - (C) Fine Arts insurance.
 - (D) Personal Articles insurance.
- A40. The Increased Cost—Demolition or Construction (for Dwellings) Endorsement
- (A) requires a separate amount of insurance.
 - (B) overrides any other provisions in the Basis of Claim Payment section of the policy.
 - (C) covers the extra cost of building repairs or construction imposed due to the operation of law.
 - (D) is an automatic coverage under all Homeowners forms.

ANSWER Group B (QUEBEC) only if you have NOT answered Group A (Common Law Provinces). If you have completed Group A, go directly to Question 2.

GROUP B (QUEBEC)

- B41. Under the Building and/or Contents Named Perils Form, the peril of Water Damage excludes freezing during the usual heating season when the insured has been away for
- (A) more than 4 consecutive days.
 - (B) more than 2 consecutive days.
 - (C) up to 4 consecutive days.
 - (D) up to 2 consecutive days.
- B42. Under the Homeowners' Standard Form, the peril of Transportation provides coverage for
- (A) damage to insured property resulting from upset of the automobile carrying the property.
 - (B) the loss of luggage while the insured is travelling.
 - (C) damage to insured property resulting from upset of the mobile home containing the property.
 - (D) (A) and (C)
- B43. The Personal Property coverage of the Building and/or Contents Named Perils Form applies not only to property owned by the named insured but also to
- (A) property owned by the insured's dependants, whether residing on the premises or not.
 - (B) property owned by the insured's relatives, whether residing on the premises or not.
 - (C) uninsured property of guests on the premises.
 - (D) uninsured property of roomers or boarders not related to an insured person.
- B44. General Condition 1.1 (Representation of risk): This General Condition requires that the client or insured represent to the insurer, to the best of his knowledge,
- (A) all facts about the risk.
 - (B) all material facts about the risk except those the insurer knows or may be expected to know, unless the insurer asks for those, too.
 - (C) only material facts the insurer does know or may be expected to know.
 - (D) only those facts about the risk requested by the insurer.
- B45. General Condition 4.2 (Pair and set): This General Condition provides that loss of
- (A) a scheduled article shall be construed to mean loss of the set.
 - (B) an article shall be construed to mean loss of the set.
 - (C) an article shall be measured as a fair proportion of the value of the set.
 - (D) an unscheduled article is not covered.

- B46. General Condition 6 (Cancellation): Under this General Condition, the policy may be terminated by
- (A) the insured subject to 15 days' notice to the insurer at the legal address shown on the policy.
 - (B) the insurer subject to 15 days' notice to the insured at the insured's last known address.
 - (C) the insurer at any time if the insured has been guilty of misrepresentation or non-disclosure.
 - (D) (A) and (B)
- B47. The Waiver of Coinsurance Clause waives
- (A) insurance to value.
 - (B) the Coinsurance Clause at the insured's discretion.
 - (C) the Coinsurance Clause at the insurer's discretion.
 - (D) the Coinsurance Clause for losses of less than specified amounts.
- B48. Which of the following is NOT one of the additional perils automatically offered on standard property policies?
- (A) Riot
 - (B) Explosion
 - (C) Earthquake
 - (D) Lightning
- B49. Under the Building and/or Contents Named Perils Form, **dwelling building** means
- (A) the main dwelling building and any attached private structure.
 - (B) the main dwelling building and any detached private structure.
 - (C) the main dwelling building only.
 - (D) (A) and (B).
- B50. Which of the following is true of the Optional Loss Settlement Clause in the Building and/or Contents forms?
- (A) The increased cost due to zoning bylaws will be included in the amount paid by the insurer.
 - (B) The insured may choose between actual cash value and replacement cost.
 - (C) The option to repair or replace will always work in favour of the insured.
 - (D) The work must be completed within six months.
- B51. Under a Building and/or Contents form, limited coverage for property owned by uninsured visitors and damaged by an insured peril while on the insured's premises is provided by
- (A) Coverage A – Dwelling Building
 - (B) Coverage C – Personal Property
 - (C) Coverage D – Fair Rental Value
 - (D) None of the above

- B52. The “cube of space” concept refers to the ownership of the walls, floor, and ceiling of a
- (A) condominium building.
 - (B) condominium unit.
 - (C) co-operative building.
 - (D) co-operative unit.
- B53. Coverage under Scheduled Personal Articles insurance
- (A) applies only in continental North America.
 - (B) is against named perils only.
 - (C) is not subject to the Deductible Clause.
 - (D) usually provides a specific amount of insurance for each item.
- B54. The Personal Computer Endorsement covers
- (A) loss caused by lightning.
 - (B) loss caused by magnetic disturbances.
 - (C) loss to computers while being repaired.
 - (D) the cost of gathering lost data after a power failure.
- B55. Specified Perils are found in
- (A) all the three Homeowners forms.
 - (B) both the Homeowners Standard and Broad forms.
 - (C) both the Homeowners Broad and Comprehensive forms.
 - (D) only the Homeowners Comprehensive Form.

(2 marks each = 80 marks)

Section B: Narrative Questions

- Question 2. (a) Describe the Removal of Insured Property provision found in fire insurance policies. (10 marks)
- (b) With respect to the Residential Basic Form or Building and/or Contents Named Perils Form, under what conditions is a structure considered detached as opposed to being part of the main dwelling? (4 marks)
- (c) In addition to the Homeowners Basic or Standard Form, there are TWO (2) other types of Homeowners form in use for which IBC has standardized policies. Identify these TWO (2) forms and briefly explain how they differ from the Homeowners Basic or Standard Form. (6 marks)

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- Question 3. (a) Calculate the amount payable to the insured with respect to the following loss. Show your calculations and explain your reasoning.
- | | | |
|---------------------------------|-----------|------------|
| Stock valued at | \$ 80,000 | |
| 90% Coinsurance Clause | | |
| 2% or \$ 5,000 Waiver Clause | | |
| Amount of insurance | \$ 60,000 | |
| Undamaged stock valued at | \$ 20,000 | (10 marks) |
- (b) Explain how a lender is better protected with a mortgage clause than by being named simply as a loss payee under the policy. (10 marks)
- Question 4. (a) Name FIVE (5) losses that may be considered direct fire losses under a fire policy but are not actually due to damage by flames. (5 marks)
- (b) Explain the importance of establishing the proximate cause of a fire in deciding whether a loss is covered under a fire policy. (5 marks)
- (c) What are the provisions of the Automatic Reinstatement Clause? (5 marks)
- (d) Explain the provisions of the **Other Insurance Clauses** that are found in most fire insurance policies. (5 marks)
- Question 5. (a) Indicate whether the following losses would be **covered** or **not covered** by the insured perils of the Residential Basic Form or the Building and/or Contents (Named Perils) form:
- (i) Smoke from fireplaces (2 marks)
 - (ii) An aircraft engine catches fire, breaks away from the plane in flight, and tears through the roof of the residence. (2 marks)
 - (iii) Vandals spray-paint graffiti on the walls of the building while it is under construction. (2 marks)
 - (iv) Damage to a basement storage room from water that has slowly been leaking from an overhead pipe (2 marks)
 - (v) Damage to an entertainment unit when a tree branch smashed through a window during a windstorm (2 marks)
- (b) An insured's dwelling building is covered on a Residential Basic Form or a Building and/or Contents Form in the amount of \$300,000. The property includes three detached private structures valued at \$10,000; \$20,000; and \$45,000 respectively. How much will the insurer pay
- (i) if only the most valuable detached structure is totally destroyed? Show your calculations. (5 marks)
 - (ii) if all three detached structures are totally destroyed? Indicate how much would be paid for each structure and the total amount of the claim. Show your calculations. (5 marks)

- Question 6. (a) When starting a home-based business, the insured may not be aware there are exclusions or gaps in the Homeowners policy.
- (i) Describe these exclusions or gaps. (5 marks)
 - (ii) Briefly explain how insurers may provide coverage for home-based businesses and the limitations of that coverage. (5 marks)
- (b) Describe the coverage provided by Outboard Motors and Boats insurance. Mention the property and locations covered. Outline perils insured against and any special provisions or limitations. (10 marks)

Section C: Application Question

- Question 7. You are an insurance agent.
- (a) You have a client who is a professional opera singer. She has a condominium apartment in your city but she is seldom there. She has beautiful and expensive furniture along with a grand piano. She travels the world extensively in connection with her profession and goes to resorts in various exotic places for relaxation. She has an extensive and costly wardrobe and some fine jewellery that she frequently takes with her on her travels.
- In addition to her Condominium Unit Owners Comprehensive policy, what coverage would you recommend for this client to cover her personal property? Briefly describe the coverage, including policy features and limitations. (10 marks)
- (b) Your client has purchased a Homeowners Comprehensive Policy. The client is confused, however, about the difference between Special Limits and Specified Perils. How would you respond to the client's questions below?
- (i) Do the Special Limits apply to all items covered under the Personal Property coverage? Explain. (2 marks)
 - (ii) Do the Special Limits apply to the specified property for all types of loss? Explain. (2 marks)
 - (iii) What is the connection, if any, between Special Limits and Specified Perils? Give an example to support your answer. (3 marks)
 - (iv) Why are there Specified Perils on a Comprehensive form? (3 marks)

