

C48 AUTOMOBILE INSURANCE – PART 2

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>

1. The definition of **automobile** in the Owner's Policy extends certain coverage to other or borrowed automobiles
 - (A) of the private passenger type being operated by the insured or spouse of the insured.
 - (B) provided the other automobile has a gross vehicle weight of 4,500 kg. and is being operated by any listed driver.
 - (C) of any type provided they are not regularly used by the insured and are not used to carry passengers or make commercial deliveries.
 - (D) of any type provided its use by the insured, spouse and dependants is strictly personal.

2. Select the type of automobile that falls within the definition of **commercial automobile**.
- (A) An automobile held for sale by an automobile dealer
 - (B) A commercial vehicle of the truck type, weighing 10,000 lbs/4,500 kgs. or less and used exclusively for pleasure
 - (C) A motor vehicle of the private passenger type used for police department services
 - (D) A motor vehicle of the private passenger type used to transport sales samples
3. Identify the business that operates as a third-party transportation company that assembles small loads from various shippers, consolidates the loads to form full loads, and uses some method of transportation to deliver them to a destination where they are taken apart and sent to their final destination.
- (A) Common carrier
 - (B) Contract carrier
 - (C) Shipper-receiver
 - (D) Freight forwarder
4. The National Safety Code
- (A) sets standards that apply to all carriers and governments across Canada.
 - (B) delegates federal authority to the provinces to enact legislation regulating commercial and public vehicles.
 - (C) regulates the handling and transportation of dangerous goods.
 - (D) prescribes minimum limits of liability for public vehicles being operated in Canada.
5. **Public vehicles** are those that
- (A) must accept shipments from anyone who wishes to use their services.
 - (B) engage in for-hire transportation of merchandise under individual contracts with a limited number of customers.
 - (C) are owned by individual drivers who work under contract for a carrier.
 - (D) carry passengers for compensation or hire.
6. A reason to reduce the premium for a fleet of vehicles below what would otherwise be the total sum of the manual premiums is that
- (A) actuarial data supports a reduced rate because the experience of five or more vehicles combined is statistically significant.
 - (B) it is less costly for an insurer to negotiate terms with one insured and issue one policy than to negotiate with many individuals.
 - (C) generally, fleet losses can be difficult to track and monitor and any given fleet may appear to have performed better than is actually the case.
 - (D) the large number of vehicles lends significance to any difference between the experience of the fleet and the experience anticipated for it.

7. In assessing the loss experience for a risk, an underwriter tries to predict the claims costs in the future. It is therefore important to
- (A) consider the minimum years of driving experience management requires of candidates applying for a driving position.
 - (B) adjust the loss experience to reflect any differences between the coverages and deductibles being asked for and those on the expiring policy.
 - (C) investigate the maintenance procedures to ensure the risk does schedule regular maintenance for its vehicles.
 - (D) establish that management actions convey the same message as that sent out in company guidelines, procedures, driver handbooks, and other literature.
8. A **preventable accident** is one that
- (A) the driver was not actually responsible for, but driver error placed the driver at that location at that exact moment.
 - (B) the driver was responsible for, but an alert third-party driver should have taken some other action.
 - (C) a well-skilled, alert driver employing proper driving skills is unable to stop.
 - (D) would not have occurred had the driver taken all reasonable precautions to prevent it.
9. The rating group assigned to a commercial automobile is determined on the basis of
- (A) cost, age, and susceptibility to damage.
 - (B) whether it is considered heavy or light according to its gross vehicle weight.
 - (C) the set of codes for each of the major uses of commercial vehicles.
 - (D) age, sex, and marital status if the principal operator is under age 25.
10. Fleet rating consists of two main rating exercises: determining the
- (A) experience premium and determining an expense factor to cover overhead and all other insurance company expenses and profit.
 - (B) exposure premium for the fleet and determining next year's expected losses based on previous loss history.
 - (C) base premium and determining an increased limits factor to add premium for the capped amounts of large losses.
 - (D) average loss cost per vehicle and multiplying it by the current vehicle count.
11. When using a fleet experience rating formula, the expected losses for the fleet are determined by
- (A) extrapolating the expiring year's losses to a full 12 months.
 - (B) adding an amount to reflect the losses that have occurred but have not been reported.
 - (C) multiplying the current vehicle count by the average loss cost per vehicle.
 - (D) adjusting outstanding losses to reflect what they would probably cost next year.

12. For a new fleet risk where the loss experience is unknown, an insurer's uncertainty with regard to an adequate premium may be reduced by applying a
- (A) retrospective rating formula.
 - (B) loss costing formula.
 - (C) fleet experience rating formula.
 - (D) prospective rating formula.
13. When an endorsement granting permission to carry radioactive materials is attached to the policy, the limit
- (A) replaces the limit shown on the face of the policy while the automobile is transporting the specified material.
 - (B) supplements the limit shown on the face of the policy while the automobile is transporting the specified material.
 - (C) must be equal to or higher than the limit shown on the policy.
 - (D) shown on the face of the policy applies to third-party liability occurrences and the limit shown on the endorsement applies to physical damage occurrences.
14. An insured could be disadvantaged by a blanket basis fleet endorsement if the insured is experiencing
- (A) great growth and must pay a high additional premium at expiry.
 - (B) slow and steady growth that generates a moderate additional premium.
 - (C) neither a growth nor a slump in business.
 - (D) a reduction in growth and must wait to expiry for a return premium on vehicles that have been sold.
15. An insurer may limit its exposure on a risk that has a high frequency of small property damage claims by attaching a
- (A) Property Damage Reimbursement endorsement.
 - (B) Damage to Property of Passengers endorsement.
 - (C) Business Operations Damage to Non-owned Automobiles endorsement.
 - (D) Conversion Coverage endorsement.
16. A fronting agreement may be arranged between an insurer and a client
- (A) to meet compulsory insurance requirements yet allow the insured to manage its own losses.
 - (B) when the risk is very large and the insurer will lead on a subscription policy.
 - (C) where the insured agrees to pay additional premium should the loss ratio exceed a specified level.
 - (D) to set out the adjustment and payment terms for a risk written on a retrospective basis.

17. One of the initial activities for an insurer and broker or agent in helping an insured to implement a safety program is
- (A) reducing the frequency of loss.
 - (B) predicting future premium savings.
 - (C) recommending minimum driver hiring procedures.
 - (D) determining the risk has deficiencies that can be corrected.
18. It is difficult to implement a successful fleet safety program where
- (A) a safety director is not appointed with the sole responsibility of planning and administering the program.
 - (B) safety is made the sole responsibility of each employee for his or her specific job.
 - (C) top management does not demonstrate a personal commitment to the program.
 - (D) the risk has a propensity for numerous small nuisance-type claims.
19. As part of the driver hiring procedure, an applicant's drivers license should be reviewed to confirm the
- (A) qualifications for operating the type of equipment for which the driver is being hired.
 - (B) number of years a specific class of license has been held.
 - (C) applicant meets expected norms in terms of convictions.
 - (D) driver's age as a reflection of overall maturity and experience.
20. Road tests are used to test a driver's or an applicant's
- (A) knowledge of the Highway Traffic Codes or Acts.
 - (B) driving habits.
 - (C) physical capabilities in handling cargo.
 - (D) attitude with regard to scheduling and maintenance.
21. One of the distinguishing characteristics in the relationship between a business and an independent contractor whose services it retains is
- (A) the control that the business has a right and duty to exert over the contractor.
 - (B) the right of the business to hire and fire contractors and tell them when, where, and how to perform their obligations.
 - (C) that the relationship arises from an agreement that merely provides for the accomplishment of a certain objective.
 - (D) the fact that the business will be responsible for the negligent actions of a contractor acting within the scope of the contract at the time.

22. The Non-owned Automobile Policy will pay a third-party claim when
- (A) the driver of a non-owned automobile, using the vehicle for business, is involved in an at-fault accident, and the vehicle is uninsured.
 - (B) a non-owned vehicle is being used for personal business at the time it is involved in an accident.
 - (C) an employee is at fault in an accident with the company vehicle during the course of his or her employment.
 - (D) an independent contractor was operating his uninsured vehicle for the business of the insured at the time of the accident.
23. The premium for the Non-owned Policy is based on the
- (A) number of partners, officers, and employees who regularly use their own automobiles on the business of the insured.
 - (B) total cost for hire and the total contract cost.
 - (C) number of times a non-owned automobile is used on the business of the insured during the policy term.
 - (D) number of partners, officers, employees, and agents who regularly use their own or rented automobiles on the business of the insured.
24. An endorsement can be attached to the Non-owned Automobile Policy that restricts coverage for hired automobiles by
- (A) amending the definition of hired automobiles to only those hired for less than a specified number of days.
 - (B) covering such vehicles only when operated by the insured if the insured is an individual.
 - (C) amending the exclusion of liability assumed under contract thereby eliminating it.
 - (D) providing coverage only for automobiles owned by named persons.
25. Which of the following garage operations requires blanket coverage for owned autos?
- (A) A repair garage that owns a tow truck
 - (B) A refuelling station that also delivers home heating fuel
 - (C) A storage garage that picks up and delivers customers' automobiles
 - (D) An auto body shop with incidental used car sales
26. Garage businesses that are classified as maintenance operations usually present a low road exposure with regard to customers' automobiles because
- (A) they rarely store customers' autos overnight.
 - (B) there is generally no need to test-drive vehicles.
 - (C) for risks like refuelling and car washes, the attendant need not move the auto.
 - (D) many such operations complete the work while the customer waits.

27. Which one of the following businesses would most often present the lowest exposure for the operation of garage-owned automobiles by customers?
- (A) Used car sales
 - (B) Auto body shop
 - (C) Automobile maintenance
 - (D) Service stations
28. Since the Owner's Automobile Policy will not cover most garage exposures, a Garage Automobile Policy is necessary because of
- (A) government regulations mandatory for garage owners.
 - (B) licensing requirements.
 - (C) the threat of financial ruin from an uninsured loss.
 - (D) compulsory insurance legislation for automobiles owned by the business.
29. The Garage Policy extends coverage to a newly acquired location provided the insured reports it within 14 days and the
- (A) new location is used for business purposes.
 - (B) business carried out at the new location is the business stated on the application.
 - (C) business carried out at the new location is related to the existing business and falls within the garage classification.
 - (D) business is carried out under the name that is stated on the application.
30. When loss or damage for owned automobiles is covered under the Garage Policy on a coinsurance basis, the coinsurance penalty does NOT apply if the
- (A) loss is less than \$5,000 or 2% of the actual cash value at the time of loss.
 - (B) loss or damage is limited to 2% of the autos on hand at the time of loss.
 - (C) damage does not involve more than 4 autos at an unnamed location.
 - (D) loss or damage is limited to one automobile.
31. The coinsurance clause that applies to Specified Perils coverage for customers' automobiles under a Garage Policy makes the insured responsible for the proportional amount of the loss if the
- (A) loss involves damage to more than one automobile.
 - (B) limit at the time of loss is less than 80% of the actual cash value of automobiles in the insured's care, custody, or control.
 - (C) coinsurance requirement is not met and the loss is in excess of 3% or \$5,000.
 - (D) the number of customers' autos in the insured's care, custody, or control at the time of loss is greater than the maximum number stated.

32. A garage owner can purchase an endorsement that will respond for damage to certain non-owned automobiles caused by careless acts of the insured and employees. This endorsement is the
- (A) Open Lot Pilferage endorsement.
 - (B) Additional Insureds endorsement.
 - (C) Property Damage Reimbursement endorsement.
 - (D) Comprehensive Coverage for Customers' Automobiles endorsement.
33. It makes good sense to require the lessee of a long-term vehicle to arrange an Owner's Policy on the leased vehicle because
- (A) compulsory insurance laws mandate that a policy be issued.
 - (B) as the registered owner, the lessee has a legal obligation to do so.
 - (C) the insurer does not want the lessor's contingent policy to be relied on.
 - (D) the lessee possesses the information necessary to secure coverage.
34. The insured, under the Lessor's Contingent Automobile Policy, warrants that the following will form part of the lease contract for each leased automobile.
- (A) The Additional Named Insured endorsement
 - (B) The Permission to Rent or Lease endorsement
 - (C) The Lessee's Insurance Undertaking
 - (D) The Conversion Coverage endorsement
35. Where the limits and amounts of insurance specified in a lease contract are less than the limits and amounts specified in the Lessor's Contingent Policy, the insurer's liability under the Lessor's Contingent Policy
- (A) is the lesser of such limits and amounts.
 - (B) will not exceed the difference.
 - (C) will be the limit stated on the Lessor's Contingent Policy.
 - (D) is the higher of such limits and amounts.
36. If the requirements respecting written evidence of insurance are not met, coverage under the Lessor's Contingent Policy ceases
- (A) immediately.
 - (B) if the lessor fails to secure other coverage.
 - (C) 45 days after the date of delivery of the automobile to the lessee.
 - (D) 45 days after it comes to the lessor's knowledge.
37. An Excess Automobile Policy, subject to the various Insurance Acts of the provinces,
- (A) cannot be issued for a limit that is less than the minimum limit of the province.
 - (B) may carry any limit of liability agreed to by the insurer and the insured.
 - (C) may be issued for any limit provided the excess insurer ensures that the underlying insurance meets the provincial minimums.
 - (D) may be issued for any limit but must drop down to provide the provincial minimum, if for some reason, the primary policy will not respond.

38. The application for an Excess Automobile Policy forms part of the policy and warns the applicant
- (A) of the penalties for misrepresentation or failing to disclose a material fact.
 - (B) of the consequence of or action required if any first-loss insurance is terminated.
 - (C) that coverage may be denied where the insured contravenes a term of the contract.
 - (D) that a false statement made at the time of a claim may render the policy invalid.
39. An Excess Automobile Policy is said to **follow form**. This means that the policy
- (A) is governed by the applicable conditions of the primary policy.
 - (B) limit follows or responds only when the underlying limits of liability are exhausted.
 - (C) only remains in force as long as underlying coverage remains in force.
 - (D) never becomes a first-loss policy.
40. With respect to costs incurred for the investigation, adjustment, and legal expenses following a loss, the excess insurer
- (A) shares the costs equally with the primary and underlying insurers.
 - (B) pays the costs if the primary insurer is successful in keeping the settlement within its limit.
 - (C) pays the same proportion of the total costs as its proportion of the amount of settlement.
 - (D) pays costs as governed by the applicable conditions of the primary policy.

(2 marks each = 80 marks)

Section B: Narrative Questions

- Question 2. (a) Identify FIVE (5) types of automobile that fall within the definition of **commercial automobile**. (5 marks)
- (b) Define the following terms:
- (i) Interlining (3 marks)
 - (ii) Common carrier (3 marks)
 - (iii) Freight forwarder (3 marks)
- (c) Identify the inherent hazards associated with TWO (2) of the following:
- (i) Highway tractors
 - (ii) Tank truck
 - (iii) Tractor and logging trailer
- (3 marks each = 6 marks)

continued over

- Question 3. (a) What is the function of each of the following adjustments used in developing a fleet experience rated premium?
- (i) IBNR factor (2 marks)
 - (ii) Development factor (2 marks)
 - (iii) Trend factor (2 marks)
 - (iv) Increased limits factor (2 marks)
 - (v) Expense factor (2 marks)
- (b) Describe the retrospective rating method. Identify THREE (3) reasons that an insurer may offer this rating plan. (10 marks)
- Question 4. Briefly describe FOUR (4) of the following elements of a fleet safety program:
- (a) Management's stated safety policy
 - (b) Driver screening and selection
 - (c) Accident reporting
 - (d) Incentives
 - (e) Safety meetings
- (5 marks each =20 marks)
- Question 5. All parts of this question refer to the Non-owned Automobile Policy.
- (a) Explain the circumstances under which the Non-owned Automobile Policy will respond for vehicles being operated by employees. (4 marks)
 - (b) Briefly describe THREE (3) categories of vehicle that can create a non-owned exposure to an employer. (6 marks)
 - (c) Identify the potential parties an innocent third party may sue following an automobile accident. (3 marks)
 - (d) Discuss the policy's provision for additional insureds. (5 marks)
 - (e) Define **hired automobiles**. (2 marks)
- Question 6. (a) Explain why an Owner's Policy is insufficient protection for a lessor. (6 marks)
- (b) Upon what is the Lessor's Contingent Automobile Policy contingent? What TWO (2) conditions must exist before coverage applies? (4 marks)
 - (c) Identify the items that are considered **costs** under the Excess Automobile Policy. Under what circumstances will this policy pay costs? (10 marks)

Section C: Application Question

Question 7. In the following situations, you are the broker who has been asked to provide coverage for these insureds.

- (a) A businessperson operates a fast food outlet. Independent contractors with reliable vehicles are hired to provide home delivery. The fast food outlet is promoted by a promise that delivery will be made within 30 minutes or the order will be free.

Discuss whether the owner could be held responsible for any negligent acts of the delivery service providers. What coverage would you recommend?

(10 marks)

- (b) A local businessman in your town is branching into a new venture. He is opening a new car dealership.

Explain the unique exposures and insurance needs presented by this type of business.

(10 marks)

