

## 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.

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### 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 <b>NOT</b> MARK THE ANSWERS ON THESE PAGES.</p> <hr/> <p>USE THE <b>FIRST PAGE</b> OF YOUR ANSWER BOOK.</p>
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### Part I: ALL STUDENTS

1. Which of the following is one of the standard additional perils that may be added to the Basic Fire Policy?
  - (A) Insurrection
  - (B) Rebellion
  - (C) Revolution
  - (D) Riot

2. Under the Basic Fire Policy, the amount recoverable for an insured loss is
- (A) the actual cash value of the property destroyed or damaged.
  - (B) the amount of insurance stated in the policy.
  - (C) the least of the actual cash value, the amount of insurance, and the insured's interest in the property.
  - (D) the replacement value of the damaged property.
3. The Basic Fire Policy covers
- (A) fire damage to a building during renovations under certain circumstances.
  - (B) water damage resulting from pipes bursting due to freezing.
  - (C) loss of money, if the insured has the serial numbers of the bills.
  - (D) the increased cost of rebuilding a property because of a local bylaw.
4. The Basic Fire Policy excludes loss or damage when the insured knows the building containing the property insured has been vacant or unoccupied for at least
- (A) 24 consecutive hours.
  - (B) 96 consecutive hours.
  - (C) 15 consecutive days.
  - (D) 30 consecutive days.
5. Under the Basic Fire Policy, loss or damage to goods undergoing a process that involves the application of heat is covered if that loss or damage resulted
- (A) because the goods became so hot that they caught fire.
  - (B) from a fire starting elsewhere in the insured premises.
  - (C) from inattention on the part of the attending individual.
  - (D) from the heat process itself.
6. An example of an insurable loss under the Basic Fire Policy is
- (A) damage to an automobile when the garage roof collapses due to snow.
  - (B) explosion damage to a house from a bomb planted during a revolution.
  - (C) smoke damage to the insured's newly painted house caused by a fire next door.
  - (D) none of the above
7. Under the Basic Fire Policy, if it is necessary to move property to protect it from loss,
- (A) coverage for the moved property is automatically terminated under the policy.
  - (B) coverage for the moved property always remains in force for the remainder of the policy term.
  - (C) the amount of coverage available for the moved property is the amount left from what has already been incurred for the loss.
  - (D) there is no coverage for the moved property unless an endorsement is issued.

8. In the common law provinces, the Statutory Conditions
- (A) apply to both oral and written fire insurance contracts.
  - (B) apply whether included with the fire policy or not.
  - (C) must be printed in every fire insurance policy.
  - (D) all of the above
9. In the common law provinces, the Statutory Conditions bind
- (A) the insured, not the insurer.
  - (B) the insurer, not the insured.
  - (C) both the insurer and the insured.
  - (D) neither the insurer nor the insured.
10. In the common law provinces, the Insurance Acts state that
- (A) variations in the Statutory Conditions are binding only with the insured's consent.
  - (B) variations in the Statutory Conditions may be negotiated between insurer and insured.
  - (C) no variation in the Statutory Conditions is binding on the insured.
  - (D) no variation in the Statutory Conditions is binding on the insurer.
11. Which of the following is FALSE of policy conditions in Quebec insurance contracts?
- (A) Additional conditions developed by individual insurers may be printed in the policy but will have no legal effect.
  - (B) Additional conditions must be printed in the policy in order to have legal effect.
  - (C) The conditions may reflect all the provisions of the Code governing property insurance.
  - (D) The conditions may reflect some of the provisions of the Code governing property insurance.
12. Which of the following is a true statement?
- (A) General Conditions provide safeguards for the insured and impose obligations upon the insurer.
  - (B) Insurers are free to decide which Statutory Conditions they wish to include in their policies.
  - (C) Statutory Conditions and General Conditions are similar but not identical.
  - (D) Statutory Conditions impose obligations only on the insurer.
13. The General Conditions
- (A) apply only to fire insurance risks.
  - (B) are identical to Statutory Conditions in other provinces.
  - (C) are established by court precedents.
  - (D) may include sections of the Civil Code that govern insurance policies.

14. The subject matter of a fire insurance policy is property
- (A) described in the policy, in which the insured has an interest.
  - (B) in the care, custody, and control of the insured.
  - (C) in which the insured has an interest.
  - (D) owned by the insured anywhere in the world.
15. Most fire losses are
- (A) frequent but not severe.
  - (B) severe but not frequent.
  - (C) partial.
  - (D) total.
16. Which of the following is NOT a common rating criterion for property risks?
- (A) Amount of insurance
  - (B) Building occupancy
  - (C) Public fire protection
  - (D) Susceptibility of contents
17. **Insurance to value** means coverage is
- (A) subject to a Stated Amount Clause.
  - (B) based on 80% of the item's value.
  - (C) based on higher limits reflecting the replacement value.
  - (D) to the full value of the property.
18. The Coinsurance Clause in a fire insurance policy
- (A) applies to all losses.
  - (B) encourages the insured to choose an amount of insurance that reflects his tolerance for risk.
  - (C) states the percentage of the claim amount that will be paid in a total loss.
  - (D) penalizes the insured who chooses an inadequate amount of insurance.
19. 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.

20. If the owner of a building valued at \$300,000 buys a policy with \$200,000 of coverage, an 80% Coinsurance Clause, and a 2% Waiver of Coinsurance Clause, then suffers a loss of \$6,000, his recovery under the policy will be
- (A) \$ 1,200.
  - (B) \$ 4,000.
  - (C) \$ 5,000.
  - (D) \$ 6,000.
21. A **fortuitous loss** is
- (A) accidental in origin, as far as the insured is concerned.
  - (B) one made inevitable by inherent fault or defect in the object destroyed or damaged.
  - (C) one that benefits the insured.
  - (D) the result of willful or fraudulent action by the insured.
22. The **proximate cause of a loss** may be defined as the
- (A) incident that breaks the chain of events that would otherwise have caused a loss.
  - (B) event that immediately precedes the loss.
  - (C) event that initiates the continuous chain of events leading to the loss.
  - (D) indirect loss caused by the direct loss.
23. Under a property insurance policy, additions, alterations, or repairs may be permitted
- (A) if the insured advises the insurer of a material change and receives its consent.
  - (B) under a Permission Clause that allows minor work of this kind.
  - (C) with the insurer's express written consent.
  - (D) all of the above
24. The Replacement Cost Endorsement usually includes which of the following conditions?
- (A) Where there is more than one policy covering the same perils and interest, at least one must have the same replacement cost provision.
  - (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 at the time the insured provides the estimated cost for replacement.
25. Which of the following is NOT covered under the additional peril of Smoke?
- (A) Smoke due to the sudden and faulty operation of a cooking unit
  - (B) Smoke from a fire next door
  - (C) Smoke from a grease fire in a pan on the stove
  - (D) Cumulative smoke damage from a furnace due to lack of maintenance

**Part II: ANSWER EITHER GROUP A OR GROUP B****GROUP A - COMMON LAW PROVINCES**

- A26. **Statutory Condition 9, Salvage:** Under this Statutory Condition, the insured
- (A) can abandon the damaged property to the insurer.
  - (B) must arrange for repair of the damaged property immediately.
  - (C) must take all reasonable steps to prevent further loss or damage to the property.
  - (D) all of the above
- A27. **Statutory Condition 12, When Loss Payable:** Under this Statutory Condition, an insured loss is payable by the insurer within
- (A) 15 days after the loss.
  - (B) 30 days after completion of the proof of loss.
  - (C) 60 days after completion of the proof of loss.
  - (D) 90 days after the loss.
- A28. **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) when the replacement option is chosen, it is still subject to the amount of insurance.
  - (D) when the replacement option is chosen, there is unlimited time for completion of the work.
- A29. Multi-peril policies typically include coverage for
- (A) intentional damage.
  - (B) flood.
  - (C) theft.
  - (D) war.
- A30. Which of the following is FALSE of all risks property policies?
- (A) A peril or property not excluded is covered.
  - (B) Insurance coverage, as qualified, is against all risks of direct loss or damage.
  - (C) The exclusions limit coverage to that of a named perils form.
  - (D) The extent of coverage is determined by the exclusions.

- A31. Which of the following is NOT an optional coverage extension under the Dwelling Building coverage of the Residential Basic Form?
- (A) Attached private structures on the premises
  - (B) Prohibition of access by civil authority, causing loss of rental value
  - (C) Rental value
  - (D) Building fixtures and fittings temporarily removed for repairs
- A32. 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?
- (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 pay half of the loss.
  - (C) The Residential Basic Form pays up to its limit first.
  - (D) The Personal Articles form pays up to its limit first.
- A33. Under the Homeowners Comprehensive Form, the peril of Transportation provides coverage for
- (A) damage to insured property resulting from upset of the automobile carrying the property.
  - (B) loss of luggage while the insured is travelling.
  - (C) damage to property in a vacation or home trailer.
  - (D) none of the above
- A34. In the Mobile Homeowners Form, Coverage C (Personal Property)
- (A) differs from that in the Homeowners forms in one of the Special Limits of Insurance.
  - (B) differs from that in the Homeowners forms in the first part of the description of property insured.
  - (C) excludes certain property that is part of the corresponding coverage in the Homeowners forms.
  - (D) all of the above
- A35. Which of the following is true of condominium ownership?
- (A) Condominium unit owners must insure their part of the common elements of the building.
  - (B) Condominium unit owners own the space inside their units and their contents but not any improvements bought or installed by them.
  - (C) The Condominium Corporation does not provide contents insurance.
  - (D) The Condominium Corporation never owns the land on which the building stands.

- A36. Which of the following is true of the Condominium Unit Owners Comprehensive Form?
- (A) The Loss Assessment coverage applies when the Condominium Corporation has inadequate insurance for loss or damage to any one individual unit.
  - (B) The Unit Additional Protection coverage applies when the Condominium Corporation has inadequate insurance for loss or damage to the common elements.
  - (C) The Unit Additional Protection coverage extends to the difference between the individual unit owner's deductible and the Condominium Corporation's deductible.
  - (D) The Unit Additional Protection coverage extends to the individual unit owner's improvements and betterments.
- A37. Which of the following is true of Personal Articles Insurance?
- (A) It distinguishes between musical instruments that are played for a fee and those that are not.
  - (B) It excludes musical instruments played for a fee without exception.
  - (C) It is intended to cover the musical instruments of individuals as well as groups.
  - (D) It terms the use of musical instruments played for a fee **professional** and the use of instruments played for no fee **amateur**.
- A38. Fine Arts Insurance
- (A) covers breakage of fragile objects if caused by a Fire and Extended Coverage peril.
  - (B) covers repairs to insured items damaged during normal restoration.
  - (C) includes the cost of professional packing when an insured moves.
  - (D) is usually subject to a Deductible Clause.
- A39. Which of the following is true of the Newly Acquired Articles Clause in Personal Articles Insurance?
- (A) It automatically extends coverage to newly acquired articles of a type already insured if reported within 30 days.
  - (B) It extends coverage, at the insurer's option, to newly acquired articles reported within 30 days.
  - (C) It extends coverage to newly acquired articles of a type not already insured.
  - (D) It provides unlimited coverage for newly acquired articles.
- A40. The Increased Cost—Demolition or Construction (for Dwellings) Endorsement
- (A) covers the cost of demolishing a partially burned building when rebuilding is to be done on another site.
  - (B) covers at least the maximum amount required to comply with any law.
  - (C) covers the cost of installing or repairing a sprinkler system when required by ordinance.
  - (D) is an automatic coverage provided by 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 Section B: Narrative Questions.**

**GROUP B – QUEBEC**

- B41. Which of the following is true of the General Conditions?
- (A) They prevent an insured from suing his insurer.
  - (B) They exclude coverage for fire resulting from a volcanic eruption.
  - (C) They ensure that, if one item of a pair is lost or damaged, the insurer will pay the total value of the pair.
  - (D) They do not define materiality.
- B42. The General Conditions (Quebec) do NOT deal with
- (A) cancellation.
  - (B) deductibles.
  - (C) material change in risk.
  - (D) misrepresentation or concealment.
- B43. Article 3119 of the Civil Code of Quebec provides that a policy will cover property in Quebec according to the Civil Code if the
- (A) insurer's head office is located in Quebec.
  - (B) policyholder applied in Quebec for coverage or the insurer issued the policy in Quebec.
  - (C) policyholder requests that the policy do so at the time of application.
  - (D) policyholder's interest would be better served by the Code than by the corresponding Insurance Act.
- 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 requires to set the premium.
  - (D) only those material facts about the risk requested by the insurer.

- B45. A building is insured under a Building and/or Contents Named Perils Form for \$240,000 while two detached private structures—a guest cottage and a garage—are collectively insured for \$24,000. If the cottage and garage are worth \$24,000 and \$12,000 respectively, what amount of insurance is available for the cottage in the event of loss?
- (A) \$ 6,000
  - (B) \$ 8,000
  - (C) \$16,000
  - (D) \$24,000
- B46. In the Building and/or Contents Named Perils Form, which of the following is NOT covered under Fair Rental Value?
- (A) Expenses that cease while the building damage is being repaired
  - (B) Expenses that continue while the building is unfit for occupancy
  - (C) Income from a part of the dwelling being held for rent
  - (D) Income from a part of the dwelling being rented
- B47. Under the Homeowners Standard Form, the Debris Removal Clause
- (A) may increase the amount of insurance payable under the policy.
  - (B) pays the expense of removing debris blown onto the insured premises.
  - (C) pays the expense of removing debris of insured and uninsured property.
  - (D) does not increase the amount of insurance under the policy.
- B48. Under the Homeowners Standard Form, the peril of Transportation provides coverage for
- (A) damage to insured property resulting from upset of the vehicle carrying the property.
  - (B) loss of luggage while the insured is travelling.
  - (C) loss of property in a vacation or home trailer.
  - (D) damage to watercraft and their equipment.
- B49. With respect to mobile homes, which of the following is true of the Homeowners Broad Form?
- (A) It omits any reference to mobile homes.
  - (B) It specifies the same coverage as the Homeowners Standard Form.
  - (C) Nothing in the Homeowners Broad Form precludes coverage for mobile homes.
  - (D) (A) and (C)
- B50. Which of the following is true of condominium ownership?
- (A) Condominium unit owners must insure their part of the common elements of the building.
  - (B) Condominium unit owners own the space inside their units and their contents but not any improvements bought or installed by them.
  - (C) The Condominium Syndicate does not provide contents insurance.
  - (D) The Condominium Syndicate never owns the land on which the building stands.

- B51. Which of the following would NOT be a reason for a Condominium Syndicate to assess individual condominium unit owners?
- (A) A shortfall in the insurance bought by the Syndicate
  - (B) Shortfalls in unit owners' insurance for insured damage to their units
  - (C) The application of a coinsurance penalty to the settlement for loss to the building
  - (D) The breach of a condition in the insurance bought by the Syndicate
- B52. Coverage under Scheduled Personal Articles Insurance
- (A) applies only in Canada and the United States.
  - (B) is against named perils only.
  - (C) is provided for a collection by insuring each article of it individually.
  - (D) is usually subject to the Deductible Clause.
- B53. Which of the following is FALSE of Scheduled Personal Articles Insurance?
- (A) If a claim for damage to musical instruments is denied because of the business and professional use exclusion, the insurer cannot keep the premium for the coverage.
  - (B) If the insurer agrees to waive the exclusion of business and professional use of musical instruments, a higher rate will probably apply.
  - (C) It excludes business and professional use of musical instruments.
  - (D) It is intended to cover the musical instruments of individuals as well as groups.
- B54. Generally, Outboard Motors and Boat Insurance
- (A) is standard among insurers.
  - (B) provides worldwide coverage.
  - (C) offers more restrictive coverage for motor boats than do the Homeowners forms.
  - (D) schedules each boat with a separate amount of insurance.
- B55. The Contingent Liability from Enforcement of Building By-laws Endorsement
- (A) amends the insurer's claims payment obligations.
  - (B) extends the coverage under the habitational form to which it is attached.
  - (C) requires a separate amount of insurance.
  - (D) (A) and (B)

(2 marks each = 80 marks)

## Section B: Narrative Questions

- Question 2. (a) What is **actual cash value** and how is it determined when a loss occurs? (5 marks)
- (b) Under the Basic Fire Policy, explain how vacancy or unoccupancy affects coverage. (15 marks)
- Question 3. (a) Identify and briefly comment on FOUR (4) factors that influence the rate charged for fire insurance on a mercantile or industrial building. (12 marks)
- (b) Discuss the use of Deferred Payment clauses in fire policies. Identify the type of risk where the most common example of a deferred payment clause is used. (8 marks)
- Question 4. With respect to the Residential Basic Form or the Building and/or Contents Named Perils Form,
- (a) explain the purpose of the Coverage Summary and how it achieves that purpose. (3 marks)
- (b) identify who qualifies as an **insured**. (6 marks)
- (c) under what conditions is a structure considered detached as opposed to being part of the main dwelling? (3 marks)
- (d) describe the coverage provided by Fair Rental Value. (8 marks)
- Question 5. With respect to the Homeowners Basic or Standard Form,
- (a) briefly outline the basic coverages provided under Section I (Property Coverages). (12 marks)
- (b) describe the coverage provided with respect to the following:
- (i) Outdoor trees, shrubs and plants (4 marks)
- (ii) Personal property of students living away from home (4 marks)
- Question 6. All parts of this question refer to (Scheduled) Personal Articles Insurance.
- (a) Identify FIVE (5) classes of property that are insured using this coverage. (5 marks)
- (b) Briefly discuss the coverage provided for Newly Acquired Articles. (8 marks)
- (c) Briefly discuss the Automatic Reinstatement clause as it applies in claims situations. (7 marks)

## Section C: Application Question

- Question 7. (a) You are an insurance broker representing an insured who has just suffered a total property loss. Your insured has just learned that the replacement cost coverage on a property policy is not automatic but rather certain conditions apply. Explain these conditions to your client. (10 marks)
- (b) You are a claims examiner who has been presented with the following claims. In each situation, the insured has a Basic Fire Policy with standard additional-perils coverage. Would you pay the claim? Briefly explain why or why not.
- (i) The insured's SUV was damaged at a private airport when the wing of a plane taxiing to the tarmac struck it.
  - (ii) The insured's furnace has been emitting smoke over several months. The insured wants to claim for the cumulative damage to his house and furniture as a result of the smoke damage.
  - (iii) The river overflowed its banks after days of excessive rainfall. The water damaged stock kept in the basement of the insured's building.
  - (iv) A small fire in the garbage can set off the sprinkler system. The insured wants his policy to pay for the water damage it caused.
  - (v) A tornado damaged the insured's store and contents.
- (2 marks each = 10 marks)

