

## C35 INSURANCE AGAINST CRIME

### 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><b>DO NOT MARK THE ANSWERS ON THESE PAGES.</b></p> <hr/> <p><b>USE THE FIRST PAGE OF YOUR ANSWER BOOK.</b></p>
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1. The General Conditions applicable to the IBC forms 6000 to 6009
  - (A) exclude coverage for claims that occurred prior to the inception of the policy.
  - (B) give the insurer the right to inspect the premises at any reasonable time.
  - (C) restrict coverage to property owned by the insured.
  - (D) exclude coverage for claims discovered more than one year after they occurred.
  
2. In the event that an insured declares bankruptcy during the term of a policy covering crime,
  - (A) the trustee in bankruptcy must notify the insurer of the change of interest.
  - (B) the policy is automatically cancelled.
  - (C) the insurer need not agree to the change of interest.
  - (D) the insured and the trustee in bankruptcy are entitled to co-payment of the insurance proceeds.

3. A Commercial Crime Insurance policy is designed
- (A) to cover both crime and fidelity perils.
  - (B) under three packages, offered to small stores and offices.
  - (C) as a foundation upon which specific wordings or riders are added.
  - (D) to cover all crime exposures for all classes of risk under one policy.
4. If insurance is provided by a Damage to Building by Burglary or Robbery Rider, the definition of **premises** under a Commercial Crime Insurance Policy is extended to include
- (A) that portion of any building that is owned by or leased to the insured.
  - (B) the building and permanent fittings and fixtures attached to it.
  - (C) showcases or show windows not opening directly into the interior of the premises.
  - (D) a residence occupied by a duly constituted financial or administrative officer of the insured.
5. **Securities** as defined in the General Definitions of a Commercial Crime insurance policy, do NOT include
- (A) cash.
  - (B) stamps.
  - (C) tickets.
  - (D) contracts representing money.
6. General Condition 17, Transfer of Rights of Recovery Against Others to the Insurer, of the Commercial Crime Insurance Policy
- (A) restricts insurance to the insured's interest except if other people's interest is included in proof of loss.
  - (B) specifies that the insurer must have previously agreed to any change in interest except in certain specific circumstances.
  - (C) warns that by making false declarations, an insured may waive his or her right to recovery.
  - (D) ensures the insurer's right of subrogation.
7. The Endorsement to Extend Insurance to Include Theft (IBC form #6107) broadens the coverage by
- (A) removing the requirement of visible marks of forcible entry or exit.
  - (B) extending coverage to include the disappearance of insured property.
  - (C) removing the requirement to keep records in a manner that allows the accurate determination of loss.
  - (D) extending coverage to any shortage disclosed by an inventory.

8. Loss Under Prior Bond or Policy, a usual extension of the Comprehensive Dishonesty, Disappearance and Destruction (3-D) Policy,
- (A) provides limits in excess of what would have been collectible under the prior policy.
  - (B) does not increase the amount of insurance granted by the present policy.
  - (C) only covers losses that would have been covered under the policy in force at the time of the occurrence.
  - (D) limits the amount payable to the difference between the limit in force at the time and the limit of the present policy.
9. A central station alarm system
- (A) is identical to a monitoring station system.
  - (B) utilizes guards to monitor signals.
  - (C) operates through a central station on the insured premises from which security personnel monitor alarms.
  - (D) provides constant alarm surveillance of the subscriber's premises.
10. The broad definition of **employee** under employee dishonesty coverage includes
- (A) directors, regardless of their involvement in day-to-day operations.
  - (B) the owner of the company.
  - (C) independent consultants hired under contract.
  - (D) temporary help hired through an employment agency.
11. An employer discovers that a long-term employee has been stealing from the company for the past ten years at a rate of \$75,000 per year. Two different succeeding policies covered employee dishonesty over that time. The first policy, in force for the first five years, had a limit of \$500,000. The second policy, in force since then, has a limit of \$100,000. The insured will recover
- (A) \$100,000
  - (B) \$350,000
  - (C) \$600,000
  - (D) \$750,000
12. The territorial limits of employee dishonesty insurance
- (A) are worldwide.
  - (B) includes employees temporarily elsewhere for a limited period of time.
  - (C) are anywhere that the insured has a permanent place of business.
  - (D) are restricted to Canada or the continental United States.
13. Which of the following types of outer door construction provides the most resistance to attack?
- (A) 50 mm close boarded framed
  - (B) 50 mm softwood with solid panels
  - (C) 50 mm hardwood with solid panels
  - (D) 50 mm softwood with glass panels

14. The discovery period for employee dishonesty insurance
- (A) is immaterial provided the loss occurred during the policy period.
  - (B) expires with the policy, but can be endorsed to extend 90 days beyond.
  - (C) is usually one to two years following the end of the policy.
  - (D) is 180 days following the end of the policy.
15. Burglary and Theft Coverage on Merchandise, an endorsement that may be added to the 3-D Policy, is significant because
- (A) it is the only way to add stock burglary coverage to the policy.
  - (B) the unlawful abstraction of property does not need to be proven with visible marks of entry or exit.
  - (C) it extends to cover loss arising from threat to the safety of property for which the insured is liable.
  - (D) it extends coverage for loss arising from employee dishonesty to include intangible property having a monetary value, such as models and confidential information.
16. Computer fraud coverage, an additional coverage that may be purchased on the 3-D policy, insures against loss of money, securities and other property which has been transferred by any computer to a person or place outside the covered premises
- (A) on the basis of unauthorized electronic instructions.
  - (B) provided it is transferred by an employee with a manifest intent to defraud the employer.
  - (C) by authorized electronic transmission of instructions given in error.
  - (D) provided it is the direct result of an outsider unlawfully gaining access to the insured's account.
17. A common exclusion found in most crime riders applies to
- (A) loss or damage to manuscripts, records or accounts, except for blank value.
  - (B) potential income, including interest and dividends, not realized because of loss insured under this policy.
  - (C) loss or damage if the guard accompanying the custodian is criminally implicated.
  - (D) loss due to the giving or surrendering of money or securities in any exchange or purchase.
18. Insuring Agreement F of a Financial Institution Bond covers counterfeit currency and differs from the 3-D policy by
- (A) extending the definition of employee beyond that found in the 3-D policy.
  - (B) extending the discovery period after expiry beyond that found in the 3-D policy.
  - (C) excluding employee dishonesty.
  - (D) restricting coverage to apply only to the currency of other countries.
19. Financial Institution Bonds are
- (A) often mandatory and the wordings are subject to governmental approval.
  - (B) similar to the 3-D in that coverage is automatically reinstated after a total loss.
  - (C) often endorsed to extend the discovery period after expiry.
  - (D) somewhat more restrictive in the types of persons considered employees.

20. A business that is a target for safe burglary can be made more attractive to an underwriter by
- (A) using a small, light safe that can easily be transported back and forth from home, reducing the cash on the premises when the business is closed.
  - (B) developing a regular schedule and pattern for daily bank deposits so that this function is not forgotten.
  - (C) finding ways to reduce the accumulation of cash on the premises.
  - (D) ensuring that accurate records are kept and stored in a secure location such as the safe so that the amount of loss can be readily determined.
21. Fidelity bond claims are difficult to adjust because
- (A) wrongful conversion is generally not covered.
  - (B) coverage of larceny is usually excluded.
  - (C) litigation is frequent.
  - (D) some wordings require conclusive proof of fraud.
22. A risk should be considered ineligible for Mercantile Stock Burglary coverage unless it
- (A) has a burglary resistant safe that cannot be easily removed from the premises.
  - (B) has safeguards to protect money and securities within the premises after business hours.
  - (C) pays salaries that are adequate to ensure employees can live reasonably without being unduly tempted to steal.
  - (D) keeps inventory records and books and accounts in such a manner that the amount of loss can be determined with accuracy.
23. Opening a double cylinder lock requires
- (A) the temporary removal of the electrical current with a button or similar device.
  - (B) the insertion of a card into a reader followed by a keyed in identification number.
  - (C) a key to enter from the outside and a thumb turn to open from the inside.
  - (D) a key to operate from either inside or outside.
24. This type of lock cylinder has pointed pins, which control the movement of a horizontal locking bar. When the correct key is inserted, the pins both rotate and are lifted to a common shear line.
- (A) Rotating disc cylinder
  - (B) Rotating pin cylinder
  - (C) Mushroom pin tumbler cylinder
  - (D) Curved keyway cylinder
25. An alarm system that provides two-way communication between the protected premises and the alarm-receiving facility is a(n)
- (A) pulsing direct-current system.
  - (B) high-low balanced circuit system.
  - (C) open-circuit system.
  - (D) interrogate response system.

26. A morticed lock is
- (A) mounted on the inside surface of the door.
  - (B) a steel locking bar with a close shackle pin.
  - (C) recessed or built into the door.
  - (D) mounted on the outside surface of the door.
27. Zoning, as it applies to intrusion devices,
- (A) allows the location of an intruder to be pinpointed to a specific area of the building.
  - (B) is a method of selecting the areas of premises to be protected when complete perimeter protection is too costly.
  - (C) is a method of testing the effective range of area protection to ensure that sensitivity has not been reduced by defective components.
  - (D) involves the use of movable protection devices to reduce the number of false alarms when the protected area is legitimately occupied.
28. Which of the following intrusion detection devices is not actually a motion detector and therefore resists false alarms better than other methods?
- (A) Infrared devices
  - (B) Electronic transducer devices
  - (C) Ultrasonic detection devices
  - (D) Microwave detection devices
29. A lock with a cylinder consisting of an inner rotating plug fitted with a cam that withdraws the bolt when rotated is a
- (A) Lever lock
  - (B) Warded lock
  - (C) Spring latch
  - (D) Pin tumbler lock
30. A change in balance between sound waves emitted and received is called
- (A) Ohm's Law.
  - (B) the Doppler Effect.
  - (C) a Thermo Acoustic.
  - (D) a McCulloch circuit.
31. **Key service** is defined in the glossary of terms employed in the ULC Burglary Protection Certificate Service as
- (A) protection is provided to an opening and closing schedule filed with the station by the subscriber.
  - (B) the extent of the protection afforded the protected property is a minimum Installation No. 3.
  - (C) the premises are protected by a dual key system and a guard is dispatched at opening and closing to properly secure the property.
  - (D) keys to the protected premises are held by the alarm company for use by the guard on alarm dispatch.

32. Extent of Protection Level No. 1
- (A) is usually limited to low-risk applications.
  - (B) is used primarily at government installations or locations where the highest degree of protection is required.
  - (C) provides complete protection for all openings leading from the risk and all ceilings, walls, and floors.
  - (D) usually provides dual protection by the use of protective wiring on openings and intrusion detection devices to protect party walls, floors, and ceilings.
33. Safety requirements or local by-laws may dictate that public establishments fit exit doors with locks that may be opened from the inside by the public. In order to meet such requirements, an establishment could install
- (A) double cylinder locks.
  - (B) electro-mechanical locks.
  - (C) panic hardware.
  - (D) padlocks.
34. A capacitance alarm system is an electronic system that
- (A) uses a wired wooden box to encase the safe and initiate an alarm if tampered with.
  - (B) is sensitive to both vibration and audio signals from hammering, explosions, or drilling.
  - (C) senses the electrical conductivity of an intruder's body, which alters the circuit's characteristics.
  - (D) is sensitive to increased temperatures that occur if the safe is attacked by cutting torches.
35. When rating safe burglary, discounts are allowed for
- (A) an approved robbery alarm system.
  - (B) an approved relocking device.
  - (C) armoured conveyance.
  - (D) frequent bank deposits.
36. Which of the following occurrences is covered under Safe Burglary?
- (A) The safe is left unlocked during regular business hours for convenience, and money disappears.
  - (B) The insured's premises are broken into and the contents of the safe are stolen by a person who obtained the combination through careful observation.
  - (C) The insured's premises are broken into and the safe and its contents are entirely removed.
  - (D) none of the above.
37. An infrared intrusion device operates by detecting
- (A) a dual change in heat and motion.
  - (B) a change in the frequency of sound waves.
  - (C) changes in temperature emitted by the body.
  - (D) an unbalance in transmitted radio frequencies.

38. Fidelity bonds are unique in that
- (A) they terminate immediately upon discovery of any shortage or of any dishonest or criminal act committed by an employee.
  - (B) the insured must bring himself within the scope of the coverage of the bond to recover under it.
  - (C) a criminal act must arise from the course of the employment of an employee for coverage to be triggered. since losses often happen over a period of time before discovery.
  - (D) the bond is cumulative from year to year.
39. A dual custody safe is characterized by
- (A) the collection of cash at least twice daily by a security company.
  - (B) a key locked combination lock mechanism.
  - (C) an inner chest with a deposit slot plus a key lock arrangement.
  - (D) a combination lock mechanism coupled with a period of time that must elapse before the safe can be opened.
40. Rates for Inside/Outside Robbery are discounted for
- (A) premises above grade floor level.
  - (B) an approved tear gas system.
  - (C) an approved burglar alarm system.
  - (D) risks that are open for business 24 hours daily.

(2 marks each = 80 marks)

## Section B: Narrative Questions

- Question 2. (a) Provide an outline of the coverage provided by the Money and Securities Rider (IBC form 6005). As part of your answer, contrast the coverage provided for money and securities with that provided for property. (12 marks)
- (b) Describe the provisions of the following exposures under the Money & Securities Rider (IBC form 6005).
- (i) Electronic transfers (3 marks)
  - (ii) Money, securities, and property in the custody of an armoured motor vehicle company (3 marks)
  - (iii) Money in vending machines (2 marks)
- Question 3. Describe the coverage provided by each of the FIVE (5) parts of the Insuring Agreement of the 3-D policy. (20 marks)

continued on next page

- Question 4. (a) How do Financial Institution Bonds differ from the Comprehensive Dishonesty, Disappearance and Destruction policy? (10 marks)
- (b) Identify the considerations an adjuster must keep in mind in the investigation of a fidelity bond claim. (10 marks)
- Question 5. (a) Differentiate between perimeter protection and area protection with respect to intrusion detection devices. (5 marks)
- (b) Describe the ways that a safe can be made more secure. (15 marks)
- Question 6. (a) Provide the definition of **fraudulent or dishonest acts** as set out by the Surety Association of America. (10 marks)
- (b) Lack of an adequate key control program can be the weak link in an otherwise sophisticated security system. What features should be included in a key control program? (10 marks)

## Section C: Application Question

- Question 7. (a) You are a loss control inspector for a large insurance company. You visit a risk for which your company provides money and securities coverage. The business handles a high volume of cash daily. You interview the insured and learn that every Wednesday and Saturday at 4:00 p.m., the insured's most trusted employee is given the past days' receipts, several thousand dollars, and walks the two blocks to the bank to deposit them. The insured has a Class 2 safe. The insured clears the cash drawers regularly and carries the money on her person. At the end of the day she empties her pockets into the safe.

What recommendations would you make to improve the exposure to loss by crime?

(10 marks)

- (b) Crime insurers rely on an underwriter's judgment of each risk, especially when loss exposures and values insured are significant. What information should an underwriter obtain in order to properly assess the following risks:

(i) Robbery risks at convenience stores

(5 marks)

(ii) Stock burglary at exclusive clothing stores

(5 marks)

