Insurance Institute
Canada

CIP PROGRAM
EXAMINATION
December 2003

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: Ⓐ Ⓑ ● Ⓓ

DO **NOT** MARK THE ANSWERS ON THESE PAGES.
USE THE **FIRST PAGE** OF YOUR ANSWER BOOK.

1. Under an Owner's Policy, the coverage that provides benefits to an injured insured whether or not that insured is responsible for his or her injuries is

   (A) Third Party Liability.
   (B) Accident Benefits.
   (C) Uninsured Motorist.
   (D) Comprehensive.

continued over

2. A company in the business of storing automobiles owned by others can have its insurance needs best met by a(n)

(A) Garage Policy.
(B) Non-owned Automobile Policy.
(C) Excess Automobile Policy.
(D) Owner's Policy.

3. A long-haul trip is defined as one-way travel distance in excess of

(A) 500 km.
(B) 150 km.
(C) 100 km.
(D) 160 km.

4. A hazard especially associated with the operation of a cement mixer is the

(A) risk that the residue from the previous loads could contaminate the load.
(B) possibility of bob-tailing which makes the unit difficult to control because the weight is not evenly proportioned over the axles.
(C) exposure to upset associated with the vehicle's high centre of gravity and the uneven roads it may travel on construction sites.
(D) susceptibility to severe wear and tear and a lack of readily available full maintenance facilities.

5. The operating radius of a commercial automobile is determined by the

(A) total distance a vehicle travels before returning to its home location.
(B) greatest distance travelled in any direction from its home location.
(C) greatest round-trip distance travelled in any direction from its home location.
(D) maximum distance a vehicle is permitted to travel from its home location, based on its licence.

6. While many insurers determine the appropriate rate group for commercial autos by using the list price new, this value can be difficult to determine because

(A) there are such a variety of commercial vehicles and so few appraisers qualified to assess values.
(B) most vehicles must be customized to some extent and the cost of equipment varies depending on use and preference.
(C) commercial vehicles generally have much longer life than personal autos, thereby reducing depreciation.
(D) there are not enough of any one type of commercial auto sold in any year to establish a standard price.

continued on next page

7. The loss frequency of a fleet is the ratio of the number of

(A) losses to the number of power units.
(B) total losses to the total premium.
(C) losses to the number of business days in a policy term.
(D) losses to the number of vehicle days.

8. Defensive driving rather than driver fault should be of concern to employers because in calculating the premium for fleet-rated risks

(A) no distinction is made between the fault of the employee and that of a third party.
(B) liability losses are reduced by the amount that represents the fault of third parties.
(C) the accident record follows the vehicle, so there is little motivation for safe driving.
(D) surcharges may be added for poor drivers as an incentive to improve their performance.

9. To calculate the premium for a commercial enterprise that owns three delivery vehicles and a private passenger automobile used by the owner to make sales calls, the underwriter would use

(A) experience rating.
(B) schedule rating.
(C) loss rating.
(D) individual rating.

10. In commercial auto rating, the driving record applies to the number of years the

(A) insured has been claims-free.
(B) vehicle has been licensed.
(C) insured has been licensed.
(D) vehicle has been claims-free.

11. In fleet experience rating formulas, an **increased limits factor**

(A) adds premium for the difference between the capped amount of the large losses in the last three years and the amount of insurance requested.
(B) is the percentage by which the driving record zero premium is discounted to reflect the performance of the actual fleet compared to similar risks.
(C) reflects any differences between present limits and additional coverages requested on renewal.
(D) adjusts current outstanding loss reserves to their estimated ultimate final cost.

continued over

12. Prospective rating

(A) is superimposed on experience rating.
(B) uses a deposit premium adjusted at expiry when all losses are known.
(C) is used for new risks where the loss experience is unknown.
(D) uses the losses of the past as an indication of future losses.

13. The Permission to Carry Explosives endorsement

(A) allows an insurer to delete accident benefits coverage when the vehicle is being used to transport explosives.
(B) increases the limit of liability by the limit stated on the endorsement when the vehicle is being used to transport explosives.
(C) amends the excluded uses provision of the general provisions, definitions and exclusions section of the policy.
(D) must be signed by the insured to be effective.

14. The Permission to Rent or Lease, Specified Lessee endorsement

(A) gives the lessor all of the rights of a named insured.
(B) grants permission for the automobile to be rented on a short-term basis.
(C) protects the lessor, as the registered owner of the automobile, with respect to provincial compulsory insurance.
(D) amends the theft exclusion so that if a lessee disappears with the vehicle, the policy will pay the loss.

15. “Road hazard” refers to the risk of

(A) injury or damage to persons or property inside the vehicle.
(B) injury or damage to persons or property outside the vehicle.
(C) loss or damage to the vehicle caused by driving over poorly constructed roads.
(D) loss or damage to the vehicle when it is driven in congested traffic areas.

16. The Property Damage Reimbursement endorsement

(A) provides voluntary compensation for goods being carried by the insured when he or she feels a moral responsibility.
(B) provides legal liability coverage for damage to the property of fare-paying passengers.
(C) requires the insured to contribute to claims paid under liability for third-party property damage.
(D) indemnifies the insured for a voluntary payment for minor damage to a third party vehicle for which the insured was liable.

continued on next page

17. A third-party road observation program is instituted by an insured to

(A) warn drivers of speed traps.
(B) encourage the public to report incidents of poor driving by the insured's drivers.
(C) warn drivers of adverse driving conditions.
(D) hire a risk manager to prepare a report on contravention of company or traffic rules.

18. Effective driver screening and selection requires

(A) a description of each job defining the duties, physical requirements, mental attributes, education, and training necessary.
(B) orientation on company rules and procedures and the prospective driver's role in particular.
(C) an effective employee's handbook containing management's stated safety policy and underscoring the organization's commitment to safety.
(D) credit reference checks to ensure that employees are not forced to operate on income just barely greater than their expenses.

19. In a basic driver training program, orientation consists of

(A) a review of motor carrier safety regulations, company safety regulations, and provincial and local laws affecting operation.
(B) working with a regular driver while learning delivery routes and customer preferences.
(C) learning proper cargo handling and techniques for handling different equipment and mechanisms.
(D) an overview of the company and the driver's role in achieving company objectives.

20. A **preventable accident** is one in which

(A) the driver may not be legally responsible but failed to do everything reasonably to avoid it.
(B) another party is legally and completely responsible for the event.
(C) the driver was able to foresee and successfully avoid the accident.
(D) the driver did everything possible to foresee the accident but could not avoid it.

21. The Law of Master and Servant states that the employer is responsible for the careless and negligent acts of the employee

(A) if the employee is acting within the scope of employment.
(B) only if the employer is aware of them.
(C) when acting as an independent contractor.
(D) only if the employee is obeying the express instructions of the master.

continued over

22. To protect itself against automobile third-party liability claims, a company whose employees regularly use their own vehicles during the course of their employment should purchase a(n)

(A) Owner's Policy.
(B) Non-Owned Automobile Policy.
(C) Garage Automobile Policy.
(D) Lessor's Contingent Automobile Policy.

23. **Automobiles operated under contract** as defined in the Non-owned Automobile Policy include vehicles that are

(A) hired, leased, or rented from others under contract.
(B) owned by the insured and rented to the business as required.
(C) supervised, directed and controlled by their owners in the business of the insured.
(D) personally driven by the insured if the insured is an individual.

24. The Non-owned Automobile Policy can be endorsed to limit coverage for a reduced premium by

(A) providing coverage for specified individual automobiles only.
(B) excluding business conducted at specified locations.
(C) providing coverage only for automobiles owned by named persons.
(D) providing coverage for non-owned autos driven only by the insured if the insured is an individual.

25. Which of the following garage businesses would require blanket coverage for owned automobiles under their Garage Policy?

(A) An auto body shop with incidental used car sales
(B) A towing operation with a fleet of tow trucks and emergency service vehicles
(C) An auto glass replacement operation with a fleet for mobile installation
(D) A hotel valet parking operation employing a number of car jockeys

26. Garage risks categorized as service operations are primarily engaged in

(A) oil changes and lubrication.
(B) glass replacement and muffler repairs.
(C) full mechanical and auto body repairs.
(D) refuelling and car washing.

27. 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.

continued on next page

28. Garage owners are legally obligated to

(A) protect the goods of others in their care, custody, or control.
(B) insure their owned vehicles, including vehicles held for sale.
(C) carry insurance covering their business premises.
(D) purchase non-owned automobile liability insurance.

29. An insurer will usually refuse to issue a Garage Policy and a Non-owned Automobile Policy to the same garage operation because

(A) the insurer does not want to double its exposure for Non-owned automobile.
(B) coverage for the Non-owned automobile exposure is provided by the Garage Policy.
(C) a Garage does not have a Non-owned Automobile liability exposure.
(D) of restrictions in the insurer's reinsurance arrangements.

30. In the Garage Policy, one of the Agreements of the Insured is to

(A) reimburse the insurer for out-of-pocket expenses paid by the insurer on the insured's behalf.
(B) investigate, negotiate and defend any claim.
(C) reimburse the insurer for any claim the insurer is required to pay under the Absolute Liability Laws.
(D) pay the court costs assessed to him.

31. **Conversion** is

(A) the voluntary transfer of title or ownership induced by any fraudulent scheme, trick, or false pretence.
(B) theft committed by a person residing in the same household or by a person employed by the insured in the business described.
(C) theft from any open lot or unroofed space owned, rented, or controlled by the insured.
(D) a dishonest claim of ownership by a person in lawful possession of an automobile under a mortgage, conditional sale, lease or similar written agreement.

32. Specified perils coverage for customers' autos under the Garage Policy is

(A) not subject to a coinsurance clause, but a limit per occurrence applies.
(B) subject to a coinsurance clause based on the value of all customers' autos in the insured's care, custody, or control.
(C) subject to a coinsurance clause based on the maximum number of customers' autos in the insured's care, custody, or control.
(D) not subject to a coinsurance clause nor a deductible for a loss caused by fire or lightning.

continued over

33. The coverage provided by the Lessor's Contingent policy is very restrictive and imposes some major obligations on the lessor because the

(A) lessor could otherwise rely solely on the lessor's contingent policy for protection.
(B) policy is contingent on the lessee's failure to obtain or maintain an owner's policy on the leased vehicle.
(C) lessor, as the registered owner of the vehicle, is responsible for insuring the vehicle under contract.
(D) the lessee is shown as the owner of the vehicle and protected by the Owner's Policy.

34. Unlike the applications for other automobile insurance policies, the application for the Lessor's Contingent Automobile Policy contains a

(A) declaration that the information in the application is true.
(B) declaration that lease contracts will include undertakings by lessees to obtain and maintain owner's policies.
(C) declaration by the lessor that, where written evidence of insurance is not received within the prescribed number of days, the lessor will obtain an owner's policy.
(D) warning that the lessor's contingent automobile policy will expire concurrently with the termination of any owner's policy.

35. Under the Lessor's Contingent Automobile Policy, the insurer agrees to indemnify the insured for loss or damage

(A) should the lessor be named in an action as the owner of the vehicle and the lessee has failed to note the lessor's interest on the owner's policy.
(B) where the insured arranges an owner's policy for the required limits and amounts because the lessee has failed in this obligation.
(C) to the extent the lessor is held liable for damage as the owner of the automobile.
(D) incurred as a direct result of the lessee's failure to obtain or maintain appropriate coverage.

36. Under a Lessor's Contingent Policy, if requirements regarding written evidence of insurance are not met, the insured agrees to

(A) arrange for insurance in the required limits and amounts.
(B) arrange for insurance in the required limits and amounts within 30 days after the delivery of the automobile to the lessee.
(C) arrange for insurance in the required limits and amounts within 45 days of the expiry of the lessee's policy.
(D) contact the lessee's insurer so that coverage under the policy does not cease.

continued on next page

37. An Excess Automobile Policy

(A) must be issued for equal to or greater than the statutory minimum amount of insurance.
(B) may be required to meet the provincial government regulations.
(C) is issued only for commercial automobiles because of their increased vulnerability to catastrophic loss.
(D) is not available for personal automobiles because an insurer can increase the primary policy's third-party liability coverage to whatever limit is required for this type of risk.

38. The Ultimate Net Loss provision in the Excess Automobile policy

(A) ensures that the excess insurer will not participate until the limits stated for the underlying policies is exhausted regardless of whether that amount is actually paid.
(B) defines the excess insurer's loss as the amount in excess of the lessor of the limits provided by the underlying insurers or the amount the underlying insurers are responsible for under statute.
(C) states the amount payable is the amount remaining after all recoveries have been made and other valid and collectible insurance, other than the primary and underlying policies has contributed its share.
(D) ensures the policy will contribute to, or drop down or become primary for loss settlement less than the liability of the underlying policies in very limited and specific circumstances only.

39. The Excess Policy responds for loss when a judgement has been handed down that exceeds the primary and underlying insurance and the

(A) primary and underlying insurers have admitted liability for their portion.
(B) excess insurer has investigated and determined its liability.
(C) insured appeals the judgement.
(D) insured followed the statutory conditions and immediately notified the excess insurer at the time the loss occurred.

40. In issuing a policy for excess automobile insurance, an underwriter should ensure that the

(A) excess policy expires at the same time as the primary and any underlying excess policies.
(B) primary and underlying excess policies have sufficient limits of liability for the type of exposure.
(C) premium development for the primary policy is adequate.
(D) primary policy does not have unusual exclusions that might cause the excess policy to drop down.

(2 marks each = 80 marks)

continued over

Section B: Narrative Questions

Question 2. (a) Briefly describe the need for the following automobile policy forms:

(i) Garage Automobile Policy (3 marks)
(ii) Non-owned Automobile Policy (2 marks)
(iii) Excess Automobile Policy (2 marks)
(iv) Lessor's Contingent Automobile Policy (3 marks)

(b) Briefly describe the THREE (3) levels of government laws pertaining to the operation of commercial automobiles. (10 marks)

Question 3. Identify the standard or non-standard endorsement to the Owner's policy that is required or that an underwriter may consider under the following circumstances:

(a) The insured owns 30 vehicles that are rented daily.
(b) The insured is in the cartage business, hauling general freight. Business has been very steady for years and the insured has seen little fluctuation in the number of employees or vehicles. He maintains a fleet of 40 vehicles.
(c) The insured is a common carrier that hires employees who own their own trucks. To meet licensing requirements, employees are obligated under contract to operate for the insured only and to lease their vehicles to their employer. The policy has been endorsed with permission to rent or lease.
(d) The insured owns a fleet of mobile cranes used in the construction industry. The cranes travel to the job site where they are parked and may remain for hoisting operations for days without being moved.
(e) The insured is a landscaper who uses his pickup trucks to service snowploughing contracts with local businesses in the winter months. A number of small property damage claims occur each winter.
(f) There are a number of named insureds on the policy who recognize that if one of the insureds is negligent and causes injury to another there would be no coverage because you cannot sue yourself.
(g) The insured is a taxi driver who is responsible by law for the luggage that he carries in his vehicle. In order to maintain his licence the city requires an endorsement to his policy.
(h) The insured runs an aircraft flight training school and his automobile is regularly driven in the area where planes are taxied or maintained.
(i) The insured takes advantage of the Canadian winter and drives his vehicles across the frozen lake rather than take the long way around the lake to deliver provisions to the stores in the north.

continued on next page

(j) The insured is a municipality that is responsible for fire protection and emergency rescues. Their trucks carry ladders, jaws-of-life, hoses, backboards, and other equipment.
(2 marks each = 20)

Question 4. (a) Briefly discuss the issues an underwriter must consider when presented with a request to provide liability limits in excess of $1,000,000 for a high risk commercial automobile exposure. (5 marks)

(b) Identify the information an underwriter would expect to see on an application for individually rated commercial automobiles with respect to the following:

(i) The nature of the business (3 marks)
(ii) The driving experience for all drivers (3 marks)

(c) Describe the drawbacks in using the actual cash value instead of list price new for the purposes of physical damage premium calculation and coverage for commercial vehicles. (4 marks)

(d) What should a fleet underwriter look for when reviewing the claims experience on a fleet application? (5 marks)

Question 5. (a) Define the automobiles insured under a Garage Automobile Policy. (10 marks)

(b) When is garage automobile blanket physical damage coverage for owned automobiles provided on a monthly average basis? How does the coverage operate? (10 marks)

Question 6. All parts of this question refer to the Non-owned Automobile Policy.

(a) Briefly describe the FIVE (5) exclusions under Section A of the policy? (5 marks)

(b) Identify and define the two terms used in determining the premium for the policy. (7 marks)

(c) Briefly explain how the premium adjustment provision operates. (8 marks)

continued over

Section C: Application Question

Question 7. (a) You are a broker on a fleet risk. The loss experience on the risk has been average, but you suspect it is more good luck than good management. You want to convince the insured to implement a safety program. Identify FIVE (5) benefits of a safety program you will use to persuade the client of its merits. (5 marks)

(b) You are a fleet underwriter. You have received an application for a household storage and moving operation. The applicant's fleet comprises primarily straight trucks and tractor-trailer units. They also have a couple of vans used for general service. The radius of operations is 75% within a 50-mile radius in a large metropolitan location and 25% long haul, anywhere in Canada. Identify TEN (10) exposures inherent in this type of operation with a brief description of each. (10 marks)

(c) You are a broker. Your client leases vehicles on a long-term basis and you have arranged a Lessor's Contingent Automobile Policy with a liability limit of $1,000,000. A lessee arranged an Owner's Policy with the required limit of $1,000,000 and the lessor was provided with the required documentation. Some time later, the lessee reduced his limit of liability to $200,000 without the lessor's permission. The lessee was responsible for an accident that caused serious injuries. The reduced limit of liability on the Owner's Policy is insufficient to cover the claim. The lessor submitted a claim that was denied because the lessee had arranged insurance. The lessor is upset and asks you to review the policy. What do you determine? (5 marks)

♦ ♦ ♦ ♦ ♦