

C131 ADVANCED SKILLS FOR THE INSURANCE BROKER AND AGENT

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)

DO NOT MARK THE ANSWERS ON THESE PAGES.

USE THE FIRST PAGE OF YOUR ANSWER BOOK.

1. Speculative risk is the probability of
- (A) loss without chance of gain.
 - (B) gain without chance of loss.
 - (C) neither gain nor loss.
 - (D) either gain or loss.

2. When your insured, Gray Matter Enterprises Inc., established a fund for paying small claims, it was practicing
 - (A) voluntary risk retention.
 - (B) voluntary risk transfer.
 - (C) involuntary risk retention.
 - (D) involuntary risk transfer.

3. An insured who purchases an insurance policy to protect its property from direct or indirect losses is using the risk management technique of risk
 - (A) retention.
 - (B) reduction.
 - (C) transfer.
 - (D) avoidance.

4. A D&B report on the prospective insured can provide
 - (A) a profile of the industry in which the company operates.
 - (B) special events in the company's history such as major losses.
 - (C) exposures that might be found within the industry's classification.
 - (D) suggested rates for property insurance.

5. The Abner Insurance Brokerage Inc. and Zeus Insurance Brokers Ltd. have established a formal agreement whereby they collectively market their portfolios with insurers yet remain independent in all other respects, in an arrangement called a(n)
 - (A) cluster.
 - (B) acquisition.
 - (C) affiliation.
 - (D) merger.

6. When analyzing a risk to determine the flow of the insured's work process and potential bottlenecks, a broker might ask the insured for
 - (A) its advertising brochures and catalogues.
 - (B) any existing contracts.
 - (C) a floor plan of the premises.
 - (D) its annual financial reports.

7. In a soft insurance market,
 - (A) supply exceeds demand.
 - (B) there is little competition between insurers.
 - (C) most insurers tend to identify the same class of risk as desirable leaving other classes extremely difficult to place.
 - (D) prices are higher and terms for acceptance are more restrictive.

8. A manuscript wording
 - (A) is a standard policy developed and approved by the Insurance Bureau of Canada.
 - (B) is one developed by the insured to meet its particular insurance needs.
 - (C) is a policy that has been hand-written and tested in court for enforceability only after a claim has occurred.
 - (D) does not conform to the standard wordings in general use in the industry.

9. An insurance policy in which the coverage is shared between a number of insurers is known as
- (A) proportional reinsurance.
 - (B) a subscription policy.
 - (C) a coinsurance policy.
 - (D) non-admitted coverage.
10. When taking over a policy mid-term with a broker of record letter,
- (A) the broker is liable for outstanding premiums on the account that result from a premium adjustment form.
 - (B) the original broker is required to pay the new broker directly the commissions for the account.
 - (C) the underwriter is required to accept this letter without contacting the original broker.
 - (D) commissions are paid automatically to the new broker for the term of the policy.
11. The term that guarantees the broadest coverage available under a property policy is
- (A) all risks.
 - (B) named perils.
 - (C) broad form.
 - (D) specified perils.
12. A shotgun approach to the marketing of accounts occurs when the
- (A) broker demands that the insurer accept the risk or the brokerage will move its portfolio to another insurer.
 - (B) client determines the price and conditions of the policy acceptance.
 - (C) broker sends the submission to all represented insurers.
 - (D) insurer demands that a specific volume is written by the brokerage in the following year.
13. Which of the following might be covered under a Commercial Building, Equipment and Stock policy?
- (A) Resultant damage to property other than that being worked on while undergoing the process of heat
 - (B) Loss to money and securities
 - (C) Loss or damage to a building that has been vacant for more than 30 days
 - (D) Damage to an automobile
14. An example of property excluded under the Commercial Building, Equipment & Stock policy is
- (A) terrorism.
 - (B) mould resulting from sewer back-up.
 - (C) money and securities.
 - (D) increased costs of by-laws.
15. The common type of transit wording that covers an insured for a unique, single shipment of goods from one specific location to another is a
- (A) trip transit policy.
 - (B) truckman's form.
 - (C) motor truck cargo policy.
 - (D) transportation floater.

16. During normal hours of operation at Grocery Inc., the safe in the office remains open. The money and cheques are placed inside the safe in wrapped bundles after being counted when they come from the cashiers. Last Monday, a large sum of cash disappeared from the safe. What policy might provide coverage for this loss?
- (A) Safe burglary
 - (B) Inside/Outside robbery
 - (C) Money & Securities
 - (D) None of the above
17. If one of your clients wrote a cheque for \$1,000 that was altered by the payee to \$10,000 and cashed, the section of the 3-D policy that would cover this loss is
- (A) Depositor's forgery.
 - (B) Money orders and counterfeit paper currency.
 - (C) Employee dishonesty.
 - (D) Loss of money outside the premises.
18. Which of the following property locations would be covered for liability under an umbrella policy but not under an unendorsed CGL?
- (A) A distributor in Hong Kong, China
 - (B) A manufacturing plant in Detroit, United States of America
 - (C) A retailer in Saskatoon, Canada
 - (D) None of the above
19. When a selling price clause is added to a property insurance policy, the valuation of finished stock is
- (A) calculated based on the value of the stock as if it had been sold at the time of the loss.
 - (B) based on the fact that the manufacturer's profit is earned on stock when the product is completed.
 - (C) the amount of the salvageable value of the building, equipment and stock that the insurer can obtain.
 - (D) based on the estimated total selling price of the business operations at the time of the loss.
20. Products recall coverage
- (A) covers the compensatory damage for bodily injury and property damage to third parties resulting from a defective product.
 - (B) is often a difficult coverage for the insured to purchase and the company may only find coverage from a wholesale broker or managing general agent.
 - (C) covers the cost of withdrawing a product from the market only after several cases of bodily injury have been reported and when it can be proven that the product caused the injuries.
 - (D) is a standard coverage included in the commercial general liability policy.
21. An automobile filing
- (A) provides liability insurance for a standard amount of \$200,000 US.
 - (B) provides proof that the commercial vehicle is licensed and has the minimum required coverage in force.
 - (C) is required for all automobiles operating between Canada and the United States.
 - (D) requires that the insurance has a 60-day notice of cancellation clause.

22. Prior to beginning operations in some jurisdictions, contractors may be required to secure a
- (A) Bid bond.
 - (B) Labour and materials bond.
 - (C) Maintenance bond.
 - (D) License bond.
23. Contractors working for long periods in the United States should
- (A) purchase contingent employers liability.
 - (B) confirm that the coverage provided by the policy issued in Canada is acceptable to United States licensing authorities.
 - (C) register with the state agency responsible for providing worker's compensation or purchase worker's compensation and employer's liability.
 - (D) All of the above
24. Wrap-up liability policies
- (A) cover all projects that a contractor is working on at any given period of time.
 - (B) continue to provide coverage for sub-contractors after the wrap-up policy expires.
 - (C) provide coverage for all participants on the project including the owner and general contractor.
 - (D) All of the above
25. The clause usually found in the property wording that allows the insured the authority to proceed with minor additions, alterations, or repair as required, without having to inform the insurer in advance is called the
- (A) Permissions clause.
 - (B) Tearout clause.
 - (C) Sue and Labour.
 - (D) Notice to Authorities.
26. Property insured under a builders risk wording includes
- (A) trailers used as construction offices on site.
 - (B) materials to be used in the project while in transit within Canada.
 - (C) the building under construction or alteration.
 - (D) All of the above
27. When available under a builders risk policy, rip and tear cover insures the cost of
- (A) replacing the defective product.
 - (B) the defective product itself.
 - (C) new product to replace the defective material.
 - (D) replacing the structure containing the defective product with new materials of like kind and quality.

28. As a result of one of your insurers, Smokey Woods Insurance Inc., recently being downgraded from AAA to AA, your brokerage should
- (A) switch all policies presently covered by Smokey Woods Insurance Inc. to a company with a AAA rating on renewal.
 - (B) monitor Smokey Woods Insurance Inc.'s rating for any further indication of a potential solvency problem.
 - (C) contact all insureds covered by Smokey Woods and convince them the best option for them is to change insurers immediately.
 - (D) concede that this change in rating means that the insurer is no longer be able to meet any of its obligations.
29. Additional insureds
- (A) have the same protection under the policy as the named insured.
 - (B) do not increase any additional operations risks to the insurer than those already provided by the named insured.
 - (C) are often added to the policy with respect to the liability arising out of the operations of the named insured.
 - (D) have the right of cross liability under a liability policy.
30. As a control process for certificates of insurance issued by a brokerage, the brokerage should
- (A) keep copies of the certificates in the insureds' files.
 - (B) keep a log that lists each certificate and the date it was issued.
 - (C) number the certificates to make sure that all are accounted for.
 - (D) All of the above

(2 marks each = 60 marks)

Section B: Narrative Questions

- Question 2. Fully describe the particular items a broker will compare between the submission for a quote provided by the broker and the insurer's quote, and the actions required by the broker based on this review. (20 marks)
- Question 3. Briefly discuss each of the following terms and conditions found in the insurance policy and explain how each could affect the limit of insurance payable in a claim:
- (a) Coinsurance clause (6 marks)
 - (b) Stated amount coinsurance (3 marks)
 - (c) Property of every description (POED) (4 marks)
 - (d) Stock reporting (4 marks)
 - (e) Peak season endorsement (3 marks)

- Question 4. (a) Identify the TWO (2) forms of blanket fidelity bonds and contrast how each responds in a claim. (10 marks)
- (b) Identify SIX (6) factors used by underwriters when determining the risk acceptance and rating for commercial automobile insurance. (6 marks)
- (c) What coverages are provided by an automobile garage policy? (4 marks)
- Question 5. A request for a certificate of insurance may require a policy endorsement. Identify FOUR (4) situations that may necessitate a policy change prior to issuing the certificate and describe the possible circumstances of the request and your actions as a broker. (20 marks)

Section C: Application Questions

- Question 6. The Orphanage Mutual Society has recently elected a new Board of Directors. The Society attempts to find homes for older orphans and those with physical impairments. One of the new board members has insisted that the Society purchase a Directors and Officers Liability policy or she will refuse to accept the position on the board. The present CEO is unfamiliar with this type of insurance product and has asked you to meet with him to discuss the relevance of this type of coverage in light of the solicitous nature of this organization. The Society has a small number of employees including a Chief Financial Officer, an office administrator and several social workers. Discuss in full the benefits of a D&O policy. Include the coverages and extensions of coverage that are available and the reasons why the organisation should purchase a D&O policy. (20 marks)
- Question 7. Your client, We Build-Um Contractors Ltd., is a successful, general contractor that presently has a number of contract projects in progress. The contractor has been rather ingenious in modifying vans in order to store and carry tools and other equipment to the various sites. Some of these vans stay on the construction sites during the entire project to ensure that all trades-people employed by We Build-Um Contractors Ltd. have the tools needed to perform the job when they are required. Other larger pieces of construction equipment are also on-site. As a broker you are aware that contractor's tools and equipment are a target for thieves. In order to protect We Build-Um Contractors Ltd. you have prepared a comprehensive insurance program. What policy or policies will you recommend to protect the contractor's equipment and tools? How will you explain the coverage including terms and conditions and exclusions? (20 marks)

- Question 8. The Evergreen Retail Company Ltd. is a client that depends on your brokerage to provide insurance and other risk management services. As part of your services, you review contracts that the company is preparing to enter into for any potential risk issues. What insurance information might you discover from each of the following contracts and what issues will you be concerned with?
- (a) A lease with the Everwood Property Management Inc. for new rental space at the local mall including a hold harmless agreement. (3 marks)
 - (b) An equipment lease with the Tire Rental and Lease Company for a machine that balances car tires. (7 marks)
 - (c) An Request For Proposal (RFP) for the sale of baseball bats, balls and helmets for the local T-ball Association. (5 marks)
 - (d) An acquisition proposal for a company that manufactures homemade fudge and candied nuts. The goods will be sold in the retail stores and other tourist venues. (5 marks)

