

QUESTION PAPER NO. **12**

THE INSURANCE INSTITUTE OF CANADA

EXAMINATIONS — APRIL 2001

- Subject:** INSURANCE ON PROPERTY—PART 1
(Course No. 12)
- Time:** 3 hours
- Marks:** The total marks are based on FORTY (40) multiple-choice questions, worth TWO (2) marks each, and EIGHT (8) other questions, the marks for which are as stated.
Total marks — 200

This examination paper must be handed in to the supervisor when the candidate leaves the examination room together with any paper used for rough work. Failure to comply may result in disqualification.

Section I. ALL STUDENTS

- Question 1. In the following multiple-choice questions, indicate by letter (a), (b), (c), or (d) whichever ONE (1) identifies the most correct answer.

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

1. In addition to insurance against fire, the Insurance Acts of the common law provinces also provide for insurance against
 - (a) lightning and impact by vehicle.
 - (b) lightning and limited explosion.
 - (c) limited explosion and water damage.
 - (d) windstorm and smoke.

2. Which of the following losses is covered under the Basic Fire Policy?
 - (a) Lightning strikes the insured's golf cart and burns it along with an expensive sweater; the golf clubs are also damaged.
 - (b) The insured gets caught in a civil war while travelling overseas and his luggage gets blown up.
 - (c) The insured owns several rental houses, one of which he knows has been empty for the last six months; it is now vandalized and burns down.
 - (d) While soldering the leg on a brass table, the insured burns a hole through it.

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3. Under the Basic Fire Policy, which of the following does NOT enter into the calculation of the amount an insurer will pay for a loss?
 - (a) The actual cash value of the property
 - (b) The amount of applicable insurance
 - (c) The amount of the mortgage
 - (d) The insured's interest in the property

4. The Basic Agreement of the Basic Fire Policy states that the policy insures against
 - (a) any insured peril, provided the premium is paid.
 - (b) all fire losses.
 - (c) any loss directly or indirectly caused by fire.
 - (d) direct physical loss or damage resulting from an insured peril.

5. The Basic Fire Policy provides automatic coverage when property is removed from the premises to prevent loss or further damage from an insured peril. The coverage
 - (a) applies only at one other location.
 - (b) is for 7 days or until the policy expires, whichever happens first.
 - (c) is for 14 days.
 - (d) applies only if no other loss payments have been made.

6. The Statutory Conditions (Common Law)
 - (a) apply to both oral and written fire insurance contracts.
 - (b) apply, whether included with the fire insurance contract or not.
 - (c) must be printed in every fire insurance contract.
 - (d) all of the above

7. Which of the following is NOT true of the General Conditions (Quebec)?
 - (a) They are required under the Civil Code to be included in property insurance.
 - (b) They incorporate the most common additional conditions concerning property insurance.
 - (c) They incorporate the relevant provisions of the Civil Code concerning property insurance.
 - (d) They were developed by the Insurance Bureau of Canada for insurance policies governed by the Civil Code.

8. If the owner of a building worth \$200,000 buys \$150,000 of insurance on a policy with a 90% Coinsurance clause and a 2% Waiver of Coinsurance clause and then suffers a loss of \$8,000, his recovery under the policy (rounded to the nearest \$100) will be
- (a) \$5,000.
 - (b) \$6,400.
 - (c) \$6,700.
 - (d) \$8,000.
9. A fortuitous loss
- (a) results from a cause extraneous to the damaged object.
 - (b) returns the insured to the position he enjoyed before the loss.
 - (c) was bound to happen in any event.
 - (d) was deliberately caused by the insured.
10. An occurrence will be classified as a fire under the Basic Fire Policy if
- (a) property has been scorched by a friendly fire.
 - (b) something that should not be on fire is accidentally on fire.
 - (c) property has been burned by a friendly fire.
 - (d) there has been an actual ignition of the damaged property.
11. The Basic Fire Policy covers
- (a) fire damage to property resulting from an insurrection.
 - (b) the increased cost of building repair of fire damage because of new building by-laws.
 - (c) smoke damage to the outside of a building caused by a fire across the street.
 - (d) none of the above
12. What is the primary effect of settling losses at replacement cost?
- (a) No depreciation is applied.
 - (b) The insured gets a new item without restrictions or conditions.
 - (c) The insured is paid in cash and then makes his own property replacement arrangements.
 - (d) There is no noticeable difference between replacement cost and actual cash value settlements.

13. Which of the following is NOT one of the standard additional perils on a fire policy?
- (a) Earthquake
 - (b) Lightning damage to electrical devices or appliances
 - (c) Riot
 - (d) Vandalism or malicious acts
14. An all risks property policy
- (a) covers both direct and indirect damage.
 - (b) covers carefully specified items only.
 - (c) has its coverage determined by the exclusions.
 - (d) has no exclusions.
15. The inflation protection provision
- (a) automatically increases the amount of coverage at regular intervals.
 - (b) is usually added subject to an additional premium.
 - (c) is valuable in times of low inflation.
 - (d) usually applies to buildings only.
16. Which of the following is true of deductibles?
- (a) Deductibles are illegal for certain perils.
 - (b) If a Special Limit applies to an item, the deductible comes off the Special Limit.
 - (c) Deductibles are always applied in property insurance.
 - (d) Only one deductible applies in any one occurrence.
17. Which of the following qualifies for a Homeowners form?
- (a) A building where the owner lives in the upstairs apartment and operates a small florist shop on the main floor
 - (b) A duplex that the owner rents to two families
 - (c) A triplex where the owner lives in one unit and rents the other two
 - (d) All of the above
18. The Homeowners Comprehensive Form
- (a) does not permit the addition of seasonal residences.
 - (b) provides all risks coverage subject to certain exclusions.
 - (c) provides coverage on detached garages as an optional coverage.
 - (d) uses the amount of coverage on the contents as a basis for determining the amounts of certain other coverages.

19. Under the Homeowners forms, the limit for Additional Living Expense coverage
- (a) is equal to 10% of the amount of building insurance.
 - (b) is in addition to the amount of building insurance.
 - (c) will pay all normal living expenses.
 - (d) will pay for as long as the insured decides it is necessary.
20. Which of the following is true of the mass evacuation provisions of the Homeowners' Additional Living Expense coverage?
- (a) The evacuation must be ordered by the person responsible for it.
 - (b) The event necessitating the evacuation must be sudden and accidental.
 - (c) The peril causing the evacuation must be insured by the policy.
 - (d) This is an optional coverage under all Homeowners forms.
21. Which of the following is NOT true of the Guaranteed Replacement Cost provisions in the Homeowners forms?
- (a) Actual cash value will be paid if the insured does not rebuild.
 - (b) Rebuilding must be anywhere in the same city block.
 - (c) The amount of insurance on the building must not have been reduced at any time below its replacement value.
 - (d) The building must have been insured at 100% of its replacement value at policy inception or most recent renewal.
22. Which of the following best explains the need for Specified Perils in the Homeowners Comprehensive Form?
- (a) These are the perils that are excluded.
 - (b) These are the only perils the policy insures against.
 - (c) These perils are referred to in some of the special limits and exclusions and are essential to define the coverage.
 - (d) None of the above
23. The Tenants forms
- (a) are similar to the Homeowners forms except that the building is not covered.
 - (b) cover the building and contents.
 - (c) cover the building only.
 - (d) do not include liability coverage.

24. Coverage can NOT be purchased by individual condominium unit owners for which of the following?
- (a) Common elements
 - (b) Improvements and betterments
 - (c) Loss assessment
 - (d) Unit additional protection
25. The agreed value of property insured on a valued basis is
- (a) an amount of insurance that corresponds to the appraisal value of the property.
 - (b) the actual cash value of the property.
 - (c) the actual cash value of the property plus appreciation.
 - (d) the value of the property agreed to after a loss.
26. Under outboard motor and boat insurance, which of the following is a true statement?
- (a) Boats are all fully covered under Homeowners forms.
 - (b) The coverage applies in Canada and often also the continental United States.
 - (c) The coverage is subject to a 50% Coinsurance clause.
 - (d) There is usually a significant deductible.
27. Under outboard motor and boat insurance, a Full Average clause
- (a) describes average exposure for the policy year, for the calculation of the premium.
 - (b) describes average exposure for the policy year, for the settlement of a loss.
 - (c) provides all risks coverage.
 - (d) relates an insurer's share of a loss to the adequacy of the amount of insurance.

Section II. ANSWER EITHER GROUP A OR GROUP B.

GROUP A. COMMON LAW PROVINCES

- A28. Statutory Condition 6, Requirements After Loss, states that, after a loss, the insured
- (a) is no longer responsible for the damaged property and the insurer takes over.
 - (b) must call an adjuster immediately.
 - (c) must deliver a proof of loss to the insurer as soon as practicable.
 - (d) must get three estimates of the damage incurred.

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- A29. Under Statutory Condition 9, Salvage, 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
- A30. Statutory Condition 12, When Loss Payable, states that, unless the contract provides for a shorter period, an insured loss is payable by the insurer within 60 days after the
- (a) completion of the proof of loss.
 - (b) date of loss.
 - (c) notice of loss to the insurer.
 - (d) start of the insurer's investigation of the loss.
- A31. Under the Residential Basic Form, the term **Dwelling Building** includes the
- (a) main dwelling building and any attached private structures.
 - (b) main dwelling building and any detached private structures.
 - (c) main dwelling building only.
 - (d) (a) and (b)
- A32. Under the Residential Basic Form, which of the following is NOT covered under the Fair Rental Value optional coverage extension?
- (a) Expenses that cease while the building damage is being repaired
 - (b) Expenses that continue while the building damage is being repaired
 - (c) Income from a part of the dwelling being held for rent
 - (d) Income from a part of the dwelling being rented
- A33. The Residential Basic Form insures
- (a) against named perils only.
 - (b) contents against theft.
 - (c) the dwelling building against all risks.
 - (d) the dwelling building and contents against all risks.
- A34. Under the Residential Basic Form, for which of the following insured perils will loss or damage be excluded if it occurs while the building is under construction or vacant?
- (a) Falling object
 - (b) Impact by vehicle
 - (c) Riot
 - (d) Water damage

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- A35. Which of the following is covered under the Residential Basic Form?
- (a) A glass tabletop is broken when the light fixture above it falls down.
 - (b) A sudden rainstorm while the insured is out lets water in through windows left open and damages the furniture and rugs.
 - (c) Earthquake causes the insured house to collapse.
 - (d) The pipes freeze and burst causing water damage while the insured is away overnight.
- A36. A Residential Basic Form insures personal property that includes computer software worth \$2,600. The Special Limit of Insurance on this type of property is \$2,500 and the policy deductible is \$200. If the software is totally destroyed by an insured peril, the insured will receive
- (a) \$2,300.
 - (b) \$2,400.
 - (c) \$2,500.
 - (d) \$2,600.
- A37. The Homeowners Basic Form covers the
- (a) Dwelling Building and Personal Property against all risks.
 - (b) Dwelling Building and Personal Property against named perils.
 - (c) Dwelling Building against all risks and Personal Property against named perils.
 - (d) Dwelling Building against named perils and Personal Property against all risks.
- A38. Under the Homeowners Basic Form, the Special Limits of Insurance apply to which of the following, only when the loss results from theft?
- (a) Computer software
 - (b) Items pertaining to a business
 - (c) Money
 - (d) Stamp collections
- A39. 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.

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- A40. What is the effect of adding Personal Articles Insurance to a Homeowners Comprehensive Form?
- (a) It adds all risks coverage to the Homeowners Form.
 - (b) It enables the insured to describe certain items and insure them for specified amounts.
 - (c) It relieves the insured of the need to obtain appraisals.
 - (d) It removes the limits from those items to which it applies.

**Answer Group B (Quebec) only if you have NOT answered Group A (Other Provinces).
If you have completed Group A, go directly to Question 2.**

GROUP B. QUEBEC

- B41. Under General Condition 1.3, Misrepresentations or concealment, any misrepresentation of relevant facts by the insured allows the insurer to void the contract
- (a) only before the policy is actually issued.
 - (b) only after a loss.
 - (c) only before a loss.
 - (d) only if the insurer can prove the insured's bad faith.
- B42. Under General Condition 1.4, Warranties, any increase in risk from a breach of warranty
- (a) results in additional premium payable by the insured within 15 days after notification.
 - (b) results in additional premium payable by the insured within 45 days after notification.
 - (c) suspends the coverage until accepted by the insurer.
 - (d) terminates the policy automatically.
- B43. General Condition 4.4, Replacement, gives the insurer an alternative way to settle a claim
- (a) if the insured requests it.
 - (b) subject to the rights of certain creditors.
 - (c) that grants salvage to the insured.
 - (d) unless the insured objects to it.
- B44. Under the Building and/or Contents Named Perils Form, the term **Dwelling Building** includes the
- (a) main dwelling building and any attached private structures.
 - (b) main dwelling building and any detached private structures.
 - (c) main dwelling building only.
 - (d) (a) and (b)

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- B45. Under the Building and/or Contents Named Perils Form, the Personal Property coverage may include
- (a) drawn machinery.
 - (b) improvements and betterments.
 - (c) movable or temporary property.
 - (d) all of the above
- B46. Under the Building and/or Contents Named Perils Form, which of the following is NOT covered under the Fair Rental Value coverage?
- (a) Expenses that cease while the building damage is being repaired.
 - (b) Expenses that continue while the building damage is being repaired.
 - (c) Income from a part of the dwelling being held for rent.
 - (d) Income from a part of the dwelling being rented.
- B47. The Building and/or Contents Named Perils Form insures
- (a) against Named Perils for the building only.
 - (b) against Named Perils for the contents only.
 - (c) both the building and contents against Named Perils only.
 - (d) both the building and contents against Named and Specified Perils.
- B48. Under the Building and/or Contents Named Perils Form, for which of the following insured perils will loss or damage be excluded if it occurs while the building is under construction or vacant?
- (a) Falling object
 - (b) Impact by vehicle
 - (c) Riot
 - (d) Water damage
- B49. The Homeowners Standard Form covers the
- (a) Dwelling Building and Personal Property against all risks.
 - (b) Dwelling Building and Personal Property against named perils.
 - (c) Dwelling Building against all risks and Personal Property against named perils.
 - (d) Dwelling Building against named perils and Personal Property against all risks.
- B50. Under the Homeowners Standard Form, the Special Limits of Insurance apply to which of the following, only when the loss results from theft?
- (a) Computer software
 - (b) Securities
 - (c) Money
 - (d) Stamp collections

- B51. Which of the following is covered under the Homeowners Standard Form?
- (a) A glass tabletop is broken when the light fixture above it falls down.
 - (b) A sudden rainstorm while the insured is out lets water in through windows left open and damages the furniture and rugs.
 - (c) Earthquake causes the insured house to collapse.
 - (d) The pipes freeze and burst, causing water damage while the insured is away overnight.
- B52. 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.
- B53. What is the effect of adding Scheduled Personal Articles Insurance to a Homeowners Comprehensive Form?
- (a) It adds all risks coverage to the Homeowners Form.
 - (b) It enables the insured to schedule certain items and insure them for specified amounts.
 - (c) It relieves the insured of the need to obtain appraisals.
 - (d) It removes the limits from those items to which it applies.

(2 marks each = 80 marks)

ALL STUDENTS

- Question 2. (a) State the particulars that are required in any fire insurance policy by the Insurance Acts of the common law provinces or the Civil Code of Quebec. (9 marks)
- (b) What is the difference between a specific policy and a modular policy? (6 marks)
- (c) The Basic Fire Policy excludes loss or damage to property for which specific and specialized types of insurance contracts are available. Identify FIVE (5) types of such property. (5 marks)
- Question 3. (a) Identify the FIVE (5) essential elements of a legal contract, as embodied in the Insuring Agreement or Basic Agreement of a fire insurance policy. (5 marks)
- (b) How is actual cash value determined when a loss occurs? (5 marks)

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Question 4. **ANSWER EITHER A OR B.**

Describe the general provisions of FOUR (4) of the following Statutory or General Conditions:

A. COMMON LAW PROVINCES

- (a) Statutory Condition 2 - Property of Others
- (b) Statutory Condition 9 - Salvage
- (c) Statutory Condition 11 - Appraisal
- (d) Statutory Condition 12 - When Loss Payable
- (e) Statutory Condition 13 - Replacement (5 marks each = 20 marks)

OR B. QUEBEC

- (a) General Condition 1.1 - Representation of risk
- (b) General Condition 2.1 - Insurable interest
- (c) General Condition 2.5 - Inspection
- (d) General Condition 3.4 - Intentional fault
- (e) General Condition 3.5 - Notice to police (5 marks each = 20 marks)

Question 5. (a) The insured owns several commercial buildings and is covered by a Basic Fire Policy. One day, he learns that, in one of these buildings, one of the new tenants is using volatile solvents, thereby increasing the hazard associated with the risk.

- i) How does this discovery affect the insured's coverage under the Basic Fire Policy? (1 mark)
- ii) What are the options of the insurer when notified? (3 marks)
- iii) How would this discovery affect the insured's coverage if the insured had been unaware of the change for six months? (1 mark)

(b) With respect to Statutory Condition 3, Change of Interest, state by **Yes** or **No** whether a fire insurance policy on a house would still be valid in FIVE (5) of the following circumstances:

- i) The estate of the recently deceased insured has sold the house to a brother of the insured.
- ii) The insured has been declared bankrupt and a trustee has been appointed.
- iii) The insured has died and his estate has taken over the property.
- iv) The insured is declared legally incompetent and a public trustee has been appointed.
- v) The insured sells his house and tells the new owner that the insurance is fully paid.
- vi) The insured's son has just purchased the insured's house.
- vii) One of the heirs to the insured's estate has just sold the house to another heir. (1 mark each = 5 marks)

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- Question 6. (a) Explain why and how a fire insurance policy should give precise and unambiguous identification of the property insured. Give an example of how vagueness or ambiguity in the description or location of the insured property might prevent the insured from being indemnified for a loss. (10 marks)
- (b) Identify and briefly discuss FIVE (5) factors that would influence the premium to be charged for fire insurance on a mercantile or industrial building. (10 marks)

- Question 7. Briefly explain whether the following would qualify as insured persons under the Residential Basic Form (the Building and/or Contents forms in Quebec):
- (a) An old friend of the family who lives with the insured
 - (b) The common law wife who has been living with the insured for two years
 - (c) The girlfriend of the insured, who has been living with him and their son for over one year
 - (d) The 16-year-old son of a deceased friend who lives with the insured
 - (e) The 17-year-old son of the insured while at the boarding school where he studies (2 marks each = 10 marks)

- Question 8. With respect to the Homeowners Basic or Standard Form, describe the coverage provided under TWO (2) of the following:
- (a) Additional Living Expense/Fair Rental Value
 - (b) Change of Temperature
 - (c) Credit or Debit cards (5 marks each = 10 marks)

Question 9. **ANSWER EITHER A OR B.**
A. COMMON LAW PROVINCES

With respect to the Increased Cost - Demolition or Construction (for Dwellings) Endorsement:

- (a) Explain the effect of attaching this endorsement to the policy. (6 marks)
- (b) What effect does this endorsement have on the sum insured? (2 marks)
- (c) Describe the THREE (3) restrictions that apply to this endorsement. (12 marks)

OR
B. QUEBEC

With respect to the Contingent Liability from Enforcement of Building By-laws Endorsement:

- (a) Explain the effect of attaching this endorsement to the policy. (6 marks)
- (b) What effect does this endorsement have on the sum insured? (2 marks)
- (c) Describe the THREE (3) restrictions that apply to this endorsement. (12 marks)