

C12 INSURANCE ON PROPERTY – PART 1

READ CAREFULLY:

The time allowed for this exam is 3 hours.

The total marks are based on FORTY (40) multiple-choice questions in Question 1 and SIX (6) other questions, the marks for which are as stated.

Total marks – 200

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Section A: Multiple-Choice Questions

Question 1. In the following multiple-choice questions, indicate by letter (A), (B), (C) or (D) whichever ONE (1) identifies the most correct answer.

<p>DO NOT MARK THE ANSWERS ON THESE PAGES.</p> <hr/> <p>USE THE FIRST PAGE OF YOUR ANSWER BOOK.</p>

Division I ALL STUDENTS

1. In the common law provinces, the **fire** peril is defined by the Insurance Acts to mean
- (A) fire, except as a result of explosion.
 - (B) fire, except as a result of natural, coal, or manufactured gas.
 - (C) fire, whether resulting from explosion or otherwise.
 - (D) fire, whether resulting from natural, coal, or manufactured gas.

2. Which of the following is TRUE of the Statutory Conditions in the common law provinces?
- (A) They are binding on the insurer but not on the insured.
 - (B) They must be printed in every fire insurance policy, although not necessarily in exactly the same words as set out in the Insurance Acts.
 - (C) They must be printed in every fire insurance policy exactly as set out in the Insurance Acts.
 - (D) (A) and (C)
3. The Civil Code of Quebec outlines insurance provisions similar in intent to the Statutory Conditions in the common law provinces, but different in that they
- (A) incorporate the most common additional conditions relating to property insurance.
 - (B) must be printed in every fire insurance policy exactly as set out in the Code.
 - (C) need not be printed in every fire insurance policy exactly as set out in the Code.
 - (D) were originally developed by the Insurers' Advisory Organization for insurance contracts governed by the Code.
4. Under the Basic Fire Policy, with respect to loss while the building is vacant or unoccupied,
- (A) coverage is automatically restored should occupancy be resumed after the 30-day period.
 - (B) notice to the insurer automatically overrides the exclusion.
 - (C) the 30-day period begins when the building becomes vacant or unoccupied.
 - (D) (B) and (C)
5. A **deductible** is
- (A) an amount by which a loss payment to the insured will be reduced.
 - (B) available to the insured for an additional premium.
 - (C) the insurer's portion of the loss.
 - (D) all of the above
6. The Waiver of Coinsurance clause
- (A) waives insurance to value.
 - (B) waives the Coinsurance clause at the insured's discretion.
 - (C) waives the Coinsurance clause at the insurer's discretion.
 - (D) waives the Coinsurance clause for losses of less than specified amounts.

7. The Mortgage clause
- (A) creates a separate contract between the insurer and the mortgagee.
 - (B) creates rights and obligations for both the mortgagee and the insured.
 - (C) does not permit the mortgagee to give notice or proof of loss.
 - (D) protects the mortgagee provided the named insured has not breached any policy condition.
8. 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.
9. In Quebec, insurance contracts are regulated by which of the following legislation?
- (A) The Civil Code
 - (B) The Financial Institutions Act
 - (C) The General Conditions
 - (D) The Statutory Conditions
10. In addition to the fire peril, the Basic Fire Policy must also insure against
- (A) all smoke and water damage.
 - (B) explosion and lightning damage.
 - (C) lightning and windstorm.
 - (D) vandalism and vehicle impact.
11. The Statutory Conditions (common law provinces) include provisions that discuss
- (A) amount of insurance required.
 - (B) insuring agreements.
 - (C) misrepresentation.
 - (D) renewal of policies.
12. The General Conditions (Quebec)
- (A) apply only to fire insurance risks.
 - (B) are identical to Statutory Conditions in other provinces.
 - (C) include sections of the Civil Code that govern insurance policies.
 - (D) set down only the rights and responsibilities of the insured under the policy.

13. **Insurance to value** means
- (A) coverage not subject to a Coinsurance clause.
 - (B) coverage to 80% of the item's value.
 - (C) higher limits.
 - (D) insurance in the amount that the item is worth.
14. The formula for calculating recovery for loss under a policy with a Coinsurance clause is
- (A) $(\text{Amount carried} / \text{Amount required}) \times \text{Amount of loss}$
 - (B) $(\text{Amount required} / \text{Amount carried}) \times \text{Amount of loss}$
 - (C) $(\text{Amount required} - \text{Amount carried}) \times \text{Amount of loss}$
 - (D) $\text{Amount required} - \text{Amount carried}$
15. A **hostile fire**
- (A) burns in a place provided for it.
 - (B) is one that is intentionally kindled.
 - (C) occurs in a place where it should not be.
 - (D) (A) and (B)
16. Damage suffered over time by a heating device and caused by continual exposure to flames and high temperatures is best described as
- (A) accidental.
 - (B) fortuitous.
 - (C) inevitable.
 - (D) unintentional.
17. Which of the following is required by a Homeowners form for its coverage to apply?
- (A) A dwelling must contain no more than six occupancies.
 - (B) A dwelling must not be encumbered by a mortgage.
 - (C) The building must be insured for at least \$100,000.
 - (D) The owner must live in the dwelling.
18. The Homeowners Comprehensive Form
- (A) contains no exclusions.
 - (B) is an all risks policy.
 - (C) can only be used on new homes.
 - (D) provides all risks coverage on the building and named perils on the contents.

19. In general, all Homeowners forms
- (A) automatically provide all risks coverage on certain property.
 - (B) are rated on the amount insured on the building.
 - (C) do not provide coverage on garages that are completely detached.
 - (D) do not provide coverage on personal property away from the principal residence.
20. Under the Homeowners forms, the Additional Living Expense coverage
- (A) covers all expenses when an insured is forced to vacate his premises because of damage resulting from a fire.
 - (B) covers the termination of a lease.
 - (C) has no time limitations under any circumstances.
 - (D) does not reduce the limit under another coverage.
21. Under the Homeowners forms, the Personal Property Away from Premises extension of coverage includes property removed
- (A) permanently to another location that is not owned by the insured.
 - (B) permanently to another location that is owned by the insured.
 - (C) temporarily to another location that is not owned by the insured.
 - (D) temporarily to another location that is owned by the insured.
22. For people who live in rented premises, the Tenants Comprehensive Form
- (A) contains no provisions for paying for physical damage to the dwelling caused by burglary.
 - (B) covers against loss caused by named perils only.
 - (C) provides all risks coverage of contents but does not include building coverage.
 - (D) provides all risks coverage of contents but does not include liability coverage.

DIVISION II ANSWER EITHER GROUP A OR GROUP B**GROUP A. COMMON LAW PROVINCES**

23. Statutory Condition 2 (Property of Others) states that, unless otherwise specifically stated in the policy, the insurer is not liable for loss or damage to property
- (A) in the care, custody, or control of any person other than the insured, unless the insured's interest is stated.
 - (B) in the care, custody, or control of the insured, unless the insured's interest is stated.
 - (C) owned by any person other than the insured, unless the insured's interest is stated.
 - (D) owned by the insured, unless the insured's interest is stated.

24. Under Statutory Condition 3 (Change of Interest), which of the following requires consent from the insurer?
- (A) Assignment under the Bankruptcy Act
 - (B) Change of title by death of the named insured
 - (C) Change of title by succession
 - (D) Sale of the property insured
25. Under Statutory Condition 8 (Who May Give Notice and Proof),
- (A) a mortgagee may give notice or proof of loss only if the insured cannot or will not.
 - (B) an agent of the insured may give notice or proof of loss if the insured prefers.
 - (C) only an agent of the insured may give notice or proof of loss if the insured cannot.
 - (D) only the named insured may give notice or proof of loss.
26. Under the Residential Basic Form, which of the following would be included as "insured" along with the named insured?
- (A) The named insured's estranged husband, now separated from his wife
 - (B) The named insured's mother in the house next door
 - (C) The 19-year-old daughter of the named insured, still living at home
 - (D) The 25-year-old daughter of the named insured's best friend, temporarily boarding with her
27. Under the Residential Basic Form, **dwelling building** means
- (A) the main dwelling building and any attached private structure.
 - (B) the main dwelling building and any detached private structure.
 - (C) the main dwelling building only.
 - (D) (A) and (B)
28. A building is insured under a Residential Basic Form for \$160,000. Two detached private structures, a guest cottage and a garage, are collectively insured for \$16,000. If the cottage and garage are worth \$16,000 and \$4,000 respectively, what amount of insurance is available for the cottage in the event of loss?
- (A) \$10,600
 - (B) \$12,000
 - (C) \$12,800
 - (D) \$16,000

29. The Personal Property coverage of the Residential Basic Form applies not only to property owned by the named insured but also to
- (A) property owned by the insured's dependants, whether residing on the premises or not.
 - (B) property owned by the insured's relatives, whether residing on the premises or not.
 - (C) uninsured property of guests on the premises.
 - (D) uninsured property of roomers or boarders not related to an insured person.
30. Under the Residential Basic Form, the peril of Vandalism or Malicious Acts is excluded while the building is
- (A) vacant or under construction.
 - (B) vacant or unoccupied.
 - (C) vacant or unoccupied for more than 30 consecutive days.
 - (D) all of the above
31. 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) Earthquake causes the insured house to collapse.
 - (C) While the insured is away overnight, the pipes freeze and burst, causing water damage.
 - (D) While the insured is out, a sudden rainstorm lets water in through windows left open and damages the furniture and rugs.
32. Buildings are covered only for named perils under
- (A) the Homeowners Basic Form.
 - (B) the Homeowners Broad Form.
 - (C) the Homeowners Comprehensive Form.
 - (D) (A) and (B)
33. The peril of Glass Breakage is
- (A) insured under the Basic Fire Policy.
 - (B) insured under both the Basic Fire Policy and the Residential Basic Form (RBF).
 - (C) not insured under the RBF but insured under the Homeowners Basic Form.
 - (D) none of the above
34. Under the Homeowners Basic Form, the Special Limits of Insurance apply to which of the following but only when the loss results from Theft?
- (A) Computer software
 - (B) Items pertaining to a business
 - (C) Money
 - (D) Stamp collections

35. Specified Perils are found in
- (A) all three Homeowners forms.
 - (B) both the Homeowners Basic and Broad forms.
 - (C) both the Homeowners Broad and Comprehensive forms.
 - (D) only the Homeowners Comprehensive Form.
36. Under the Residential Basic Form, which of the following is NOT subject to the Special Limits of Insurance?
- (A) Bicycles
 - (B) Garden-type tractors
 - (C) Watercraft
 - (D) (B) and (C)
37. Under the Residential Basic Form, which of the following is NOT true of the Prohibition of Access optional coverage extension?
- (A) It extends coverage for up to 96 consecutive hours.
 - (B) It applies only as the direct result of damage to neighbouring premises by an insured peril.
 - (C) It applies only if access to the insured's premises has been denied by a civil authority.
 - (D) It does not cover the insured's additional expense for a new lease.
38. Under the Residential Basic Form, in connection with which of the following insured perils is coverage excluded as soon as the building is under construction or vacant?
- (A) Falling Object
 - (B) Impact by Vehicle
 - (C) Riot
 - (D) Vandalism or Malicious Acts
39. 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 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.
40. Which of the following is NOT true of Personal Articles Insurance?
- (A) All risks coverage
 - (B) Coverage restricted to Canada and the United States
 - (C) Individual amounts of insurance on individual items
 - (D) Loss settlement not subject to the Deductible clause

Answer Group B (Quebec) only if you have NOT answered Group A (Common Law Provinces).

If you have completed Group A, go directly to Question 2.

GROUP B. QUEBEC

41. Under General Condition 1.3 (Misrepresentation or concealment), any dishonest representation of relevant facts by the insured before the contract is made allows the insurer to void the contract
- (A) at its option.
 - (B) only after a loss.
 - (C) only before a loss.
 - (D) only if the insurer can prove the insured's bad faith.
42. General Condition 2.2 (Changes) provides that the terms of this policy
- (A) may be changed by any means to which both parties agree.
 - (B) may not be changed by the insurer with an endorsement.
 - (C) shall not be waived or changed except by endorsement.
 - (D) shall not be waived or changed without the insurer's consent.
43. Which of the following is NOT true of General Condition 4.5 (Time of payment)?
- (A) Any outstanding premium may be deducted from the indemnity payable.
 - (B) Any outstanding premium must be paid before the indemnity becomes payable.
 - (C) The insured must have complied with all the terms of the contract.
 - (D) The insurer shall pay the indemnity within 60 days after receiving the notice of loss.
44. Under the Building and/or Contents Named Perils Form, which of the following would be included as "insured" along with the named insured?
- (A) The named insured's estranged husband, now separated from his wife
 - (B) The named insured's mother in the house next door
 - (C) The 19-year-old daughter of the named insured, still living at home
 - (D) The 25-year-old daughter of the named insured's best friend, temporarily boarding with her
45. Under the Building and/or Contents Named Perils Form, **dwelling building** means
- (A) the main dwelling building and any attached private structure.
 - (B) the main dwelling building and any detached private structure.
 - (C) the main dwelling building only.
 - (D) (A) and (B)

46. A building is insured under a Building and/or Contents Named Perils Form for \$160,000. Two detached private structures, a guest cottage and a garage, are collectively insured for \$16,000. If the cottage and garage are worth \$16,000 and \$4,000 respectively, what amount of insurance is available for the cottage in the event of loss?
- (A) \$10,600
 - (B) \$12,000
 - (C) \$12,800
 - (D) \$16,000
47. The Personal Property coverage of the Building and/or Contents Named Perils Form applies not only to property owned by the named insured but also to
- (A) property owned by the insured's dependants, whether residing on the premises or not.
 - (B) property owned by the insured's relatives, whether residing on the premises or not.
 - (C) uninsured property of guests on the premises.
 - (D) uninsured property of roomers or boarders not related to an insured person.
48. Under the Building and/or Contents Named Perils Form, the peril of Vandalism is excluded while the building is
- (A) vacant or under construction.
 - (B) vacant or unoccupied.
 - (C) vacant or unoccupied for more than 30 consecutive days.
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49. Which of the following is covered under the Building and/or Contents Named Perils Form?
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 - (B) Earthquake causes the insured house to collapse.
 - (C) While the insured is away overnight, the pipes freeze and burst, causing water damage.
 - (D) While the insured is out, a sudden rainstorm lets water in through windows left open and damages the furniture and rugs.
50. Buildings are covered only for named perils under
- (A) the Homeowners Standard Form.
 - (B) the Homeowners Broad Form.
 - (C) the Homeowners Comprehensive Form.
 - (D) (A) and (B)

51. The peril of Glass Breakage is
- (A) insured under the Basic Fire Policy.
 - (B) insured under both the Basic Fire Policy and the Building and/or Contents Named Perils Form (BCF).
 - (C) not insured under the BCF but insured under the Homeowners Standard Form.
 - (D) none of the above
52. 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) Items pertaining to a business
 - (C) Money
 - (D) Stamp collections
53. Specified Perils are found in
- (A) all three Homeowners forms.
 - (B) both the Homeowners Standard and Broad forms.
 - (C) both the Homeowners Broad and Comprehensive forms.
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54. Under the Building and/or Contents Named Perils Form, which of the following is NOT subject to the Special Limits of Insurance?
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 - (C) Watercraft
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 - (B) It applies only as the direct result of damage to neighbouring premises by an insured peril.
 - (C) It applies only if access to the insured's premises has been denied by a civil authority.
 - (D) It does not cover the insured's additional expense for a new lease.

56. Under the Building and/or Contents Named Perils Form, in connection with which of the following insured perils is coverage excluded as soon as the building is under construction or vacant?
- (A) Falling Object
 - (B) Impact by Vehicle
 - (C) Riot
 - (D) Vandalism
57. 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.
58. Which of the following does NOT apply to Scheduled Personal Articles Insurance?
- (A) All risks coverage
 - (B) Coverage restricted to Canada and the United States
 - (C) Individual amounts of insurance on individual items
 - (D) Loss settlement usually subject to the Deductible clause

(2 marks each = 80 marks)

Section B: Narrative Questions

ALL STUDENTS

- Question 2. (a) What is the obligation of the insurer if a written application is made for a property policy and the policy (when issued) differs in some respect from the application? (State your province or territory.) (6 marks)
- (b) The Insuring or Basic Agreement of a fire policy embodies five essential elements of a legal contract. Identify these FIVE (5) essential elements. (5 marks)
- (c) Explain fully the by-laws exclusion. (9 marks)

continued on next page

- Question 3. (a) What are the provisions of the standard extension of coverage in the Basic Fire Policy for removal of insured property? (10 marks)
- (b) Explain how the Basic Fire Policy provides for debris removal after a loss. (4 marks)
- (c) Deductibles are quite a common feature in fire policies, but they may be applied in different ways. Describe THREE (3) different ways in which deductibles can be applied. (6 marks)
- Question 4. (a) Calculate the amount payable to the insured with respect to the loss outlined below. Show your reasoning and calculations.
- | | | |
|-----------------------------|-----------|------------|
| Stock valued at | \$ 80,000 | |
| 90% Coinsurance clause | | |
| 2% or \$5,000 Waiver clause | | |
| Amount of insurance | \$ 60,000 | |
| Undamaged stock valued at | \$ 20,000 | (10 marks) |
- (b) The Standard Mortgage Clause (IBC) expresses an agreement between the insurer and the mortgagee that is independent of the agreement between the insurer and the insured.
- i) Explain the effect of this clause in the event of a breach of a policy condition by the insured. (2 marks)
- ii) What obligation does this clause impose on the mortgagee towards the insurer? (4 marks)
- iii) How does the clause affect the insurer's rights of subrogation? (4 marks)
- Question 5. (a) Explain the doctrine of proximate cause as it might affect a claim under a fire policy. (6 marks)
- (b) Distinguish between a **named perils** policy and an **all risks** policy, and explain how the doctrines of burden of proof and proximate cause are applied in each case. (8 marks)
- (c) Identify SIX (6) items of information you would expect to find on the Coverage Summary designed to be used with the various IBC residential policies. (6 marks)

- Question 6. (a) Explain the purpose and main features of the Loss Assessment coverage under a Condominium Unit Owners Comprehensive Form. (8 marks)
- (b) With respect to the Increased Cost - Demolition or Construction (for Dwellings) Endorsement (common law provinces), or the Contingent Liability from Enforcement of Building By-laws Endorsement (Quebec):
- i) Explain the effect of attaching this endorsement to the policy. (4 marks)
 - ii) What effect does this endorsement have on the sum insured? (2 marks)
 - iii) Describe the THREE (3) restrictions that apply to this endorsement. (6 marks)
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Section C: Application Question

ALL STUDENTS

- Question 7. (a) The Insured Perils section of a Residential Basic Form (common law provinces) or Building and/or Contents Form (Quebec) states that "*You are insured against direct loss or damage caused by the following perils.*" Earthquake is not one of those perils.

In the course of an earthquake, the insured's house sustains substantial structural damage. The insurer invokes the doctrine of proximate cause and will not honour the claim. The insured, on his own initiative and at his own expense, then hires a contractor to repair the damage. Unfortunately, one of the workers accidentally causes a fire and the house is completely destroyed. The insurer will again not honour the claim, again for the same reason.

- i) Was the insurer justified in denying the first claim? Why or why not? (4 marks)
- ii) Was the insurer justified in denying the second claim? Why or why not? (6 marks)

- (b) You have just sold a Homeowners Comprehensive Policy to one of your clients. However, the client is confused as to the meaning of **Special Limits** and **Specified Perils**, and whether there is a connection between the two. How would you respond to the client's questions below?
- i) Do the Special Limits apply to all items covered under my Personal Property coverage? (2 marks)
 - ii) Do the Special Limits apply to the specified property for all types of loss? Explain. (2 marks)
 - iii) What is the connection, if any, between Special Limits and Specified Perils? Could you illustrate with an example? (3 marks)
 - iv) Why are there "Specified" Perils on a "Comprehensive" Form? (3 marks)

