

QUESTION PAPER NO. **12**

THE INSURANCE INSTITUTE OF CANADA

EXAMINATIONS — DECEMBER 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 SEVEN (7) 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 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.

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

Division I. ALL STUDENTS

1. The Insurance Acts of the common law provinces describe the fire peril as
 - (a) fire resulting from an explosion.
 - (b) fire resulting from a cause other than explosion.
 - (c) fire that burns within its intended confines.
 - (d) fire, whether resulting from an explosion or otherwise.

2. In the common law provinces, insurance contracts are regulated by the following legislation:
 - (a) The Financial Institutions Act
 - (b) The Insurance Acts
 - (c) The Statutory Conditions
 - (d) (b) and (c)

3. The Civil Code of Quebec states that loss by lightning
 - (a) excludes any loss or damage to electrical devices or appliances caused by lightning.
 - (b) excludes loss by other electrical currents unless fire originates outside the article.
 - (c) is covered only if fire ensues from it.
 - (d) is loss by fire even if there is no fire.

4. For a loss under the Basic Fire Policy, the insured may recover
 - (a) the actual cash value of damaged or destroyed property at the inception of the policy.
 - (b) the actual cash value of damaged or destroyed property at the time of loss.
 - (c) the replacement cost of damaged or destroyed property at the inception of the policy.
 - (d) the replacement cost of damaged or destroyed property at the time of the loss.

5. Which of the following is part of a standard collection of additional perils that may be added to the Basic Fire Policy?
 - (a) Insurrection
 - (b) Rebellion
 - (c) Revolution
 - (d) Riot

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

7. The Basic Fire Policy excludes loss or damage when the insured knows that the building insured or containing the property insured has been vacant or unoccupied for
 - (a) 30 consecutive hours or more.
 - (b) 30 consecutive days or more.
 - (c) less than 30 consecutive days.
 - (d) more than 30 consecutive days.

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

9. Which of the following is true of the Statutory Conditions in the common law provinces?
- (a) They apply only to written fire insurance contracts.
 - (b) They are binding on both the insured and the insurer.
 - (c) They govern only the peril of Fire, although they have been extended by most insurers to also apply to Lightning and Explosion.
 - (d) (b) and (c)
10. Which of the following is NOT true of the General Conditions in Quebec?
- (a) They are described by the Civil Code as a mandatory part of property insurance policies.
 - (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 IBC for insurance policies governed by the Civil Code.
11. The subject matter of a fire insurance contract is property
- (a) described in the policy, in which the insured has an interest.
 - (b) in the care, custody, and control of the insured.
 - (c) in which the insured has an interest.
 - (d) owned by the insured.
12. Generally, the premium for a fire insurance policy is a
- (a) multiple of the average premium for the class of risk insured.
 - (b) multiple of the insured's average annual insured loss.
 - (c) specified proportion of the amount of insurance.
 - (d) specified proportion of the insured's annual revenue.
13. The Coinsurance Clause in a fire insurance policy
- (a) applies to all losses.
 - (b) encourages the insured to choose an amount of insurance that reflects his or her tolerance for risk.
 - (c) identifies the insurers where the risk is shared among several of them.
 - (d) penalizes the insured who chooses an inadequate amount of insurance.
14. If the owner of a building worth \$125,000 buys \$100,000 of insurance on a policy with a 90% Coinsurance Clause and a 2% Waiver of Coinsurance Clause, then suffers a loss of \$20,000, his recovery under the policy will be approximately
- (a) \$ 4,000.
 - (b) \$ 8,800.
 - (c) \$17,800.
 - (d) \$20,000.

15. The main benefit of a Mortgage Clause is that
- (a) it creates a separate contract between the insurer and the mortgagee.
 - (b) it reduces moral hazard by showing that the insured building is properly financed.
 - (c) it shows the lender that the financed building is covered by insurance.
 - (d) the mortgagee will be notified by the insurer in the event of a loss.
16. An all risks property policy is best defined as one that
- (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.
17. Clear language forms were developed to
- (a) allow smaller type sizes to be used in forms.
 - (b) make insurance policies shorter.
 - (c) make insurance policy wordings less formal.
 - (d) resolve legal disputes over the language of "unclear" forms.
18. With respect to the peril of Falling Object,
- (a) the coverage applies to Dwelling Building but not to Personal Property.
 - (b) the coverage applies to Personal Property but not to Dwelling Building.
 - (c) the falling object must first damage the exterior of the building for coverage to apply.
 - (d) the falling object must first strike the exterior of the building for coverage to apply.
19. Section II of the Homeowners forms covers
- (a) Detached Private Structures.
 - (b) Dwelling Building.
 - (c) Voluntary Payment for Damage to Property.
 - (d) all of the above
20. The Homeowners forms cover personal property
- (a) normally kept at another location that is owned by the insured.
 - (b) of roomers and boarders, if they are not related to the insured.
 - (c) temporarily away from the insured premises, anywhere in the world.
 - (d) (a) and (c)
21. In the Homeowners forms, a residence employee
- (a) helps the insured in the maintenance or use of insured premises.
 - (b) is an employee of a business run by the insured from the residence.
 - (c) is an employee of the insured's business who lives on the premises.
 - (d) is an insured who runs a business from his residence.

22. Which of the following would NOT be covered under the Credit Card extension of coverage in the Homeowners forms?
- (a) The insured's legal obligation arising from his son's misuse of his credit card.
 - (b) The insured's legal obligation arising from the theft of his credit card.
 - (c) Loss arising from the insured's acceptance in good faith of counterfeit money.
 - (d) Loss caused by forgery or alteration of a cheque.
23. Under the Homeowners Comprehensive Form, the Special Limits of Insurance apply to such articles as jewellery and fur garments if the cause of loss was
- (a) fire or explosion.
 - (b) one of the specified perils.
 - (c) theft.
 - (d) vandalism or malicious acts.
24. Who of the following would be better served by some type of personal property insurance other than a Tenants form?
- (a) People who occupy dwellings as employees of the owner
 - (b) People who own businesses and live in commercial buildings owned by their businesses
 - (c) People who own dwellings and need insurance for their personal property and liability
 - (d) People who rent dwellings from landlords and need insurance for their personal property and liability
25. Which of the following is NOT true of the Tenants forms?
- (a) Improvements and betterments are excluded.
 - (b) Lawns are excluded.
 - (c) Outdoor trees and shrubs are excluded.
 - (d) The Tear Out coverage is not available.
26. The "cube of space" concept refers to the ownership of the four walls, floor, and ceiling of a
- (a) condominium building.
 - (b) condominium unit.
 - (c) co-operative building.
 - (d) co-operative unit.
27. Which of the following is generally NOT true of Outboard Motor/Boat policies?
- (a) Boats, outboard motors, and trailers are insured on a blanket basis.
 - (b) Coverage applies anywhere in Canada and often also anywhere in the continental United States.
 - (c) Descriptions of watercraft powered by inboard motors often include the power rating and maximum speed.
 - (d) The most common coverage is for all risks without a deductible or with only a modest deductible.

Division II. ANSWER EITHER GROUP A OR GROUP B.

GROUP A. COMMON LAW PROVINCES

- A28. Statutory Condition 1, Misrepresentation, allows the insurer to void the contract if the applicant (the insured)
- (a) described the property falsely, to the detriment of the insurer.
 - (b) misrepresented any circumstance about the risk.
 - (c) omitted any circumstance about the risk.
 - (d) all of the above
- A29. Under Statutory Condition 3, Change of Interest, which of the following is NOT an exception to the common law rule that the insured's rights and obligations may be assigned only with the insurer's consent?
- (a) A change of title by succession
 - (b) An authorized assignment under the Bankruptcy Act
 - (c) A change of title by the operation of law
 - (d) The sale of the property following the death of the named insured
- A30. Statutory Condition 11, Appraisal, addresses disagreement as to
- (a) the amount of the loss.
 - (b) the value of the property insured.
 - (c) the value of the property saved.
 - (d) all of the above
- A31. Under the Residential Basic Form, **dwelling building** does NOT extend to
- (a) building fixtures and fittings.
 - (b) detached private structures.
 - (c) fences and gates.
 - (d) outdoor swimming pools.
- A32. A building is insured under a Residential Basic Form for \$120,000 while two detached private structures, a guest cottage and a garage, are collectively insured for \$12,000. If the cottage and garage are worth \$12,000 and \$6,000 respectively, what amount of insurance is available for the cottage in the event of loss?
- (a) \$ 4,000
 - (b) \$ 6,000
 - (c) \$ 8,000
 - (d) \$12,000

- A33. The extensions of coverage in the Residential Basic Form (RBF) for "debris removal" and "property removed" differ from their counterparts in the Basic Fire Policy only in that
- (a) property removal coverage in the RBF does not proportionally divide the amount of insurance between locations.
 - (b) property removal coverage is extended in the RBF for 30 days.
 - (c) debris removal costs under the RBF are included in the amount of insurance required by the Coinsurance Clause.
 - (d) debris removal coverage in the RBF can increase the amount of insurance.
- A34. Contents are covered against all risks under the
- (a) Homeowners Basic Form.
 - (b) Homeowners Broad Form.
 - (c) Homeowners Comprehensive Form.
 - (d) (b) and (c)
- A35. There is limited coverage for outdoor trees, shrubs, and plants under
- (a) all Homeowners forms.
 - (b) only the Homeowners Comprehensive Form.
 - (c) the Residential Basic Form and all Homeowners forms.
 - (d) the Residential Basic Form and the Homeowners Basic Form.
- A36. Under the Homeowners forms, which of the following are considered motorized vehicles and therefore NOT covered under Coverage C (Personal Property)?
- (a) Lawn mowers
 - (b) Snow blowers
 - (c) Snowmobiles
 - (d) Watercraft
- A37. Which of the following is NOT true of a Condominium Corporation?
- (a) It buys insurance for the condominium building on behalf of its owners.
 - (b) It buys insurance for the condominium units on behalf of their owners.
 - (c) Its bylaws are binding on all members of the Corporation.
 - (d) Its members comprise the owners of the condominium units.
- A38. The Personal Articles Endorsement is intended to insure
- (a) items attractive to thieves or susceptible to being misplaced.
 - (b) items that are not likely to be misplaced.
 - (c) large high-value personal items.
 - (d) small low-value personal items.

- A39. Which of the following is true of the Newly Acquired Articles Clause in the Personal Articles Endorsement?
- (a) It automatically extends coverage to newly acquired articles reported within 30 days.
 - (b) It extends coverage, at the insurer's option, to newly acquired articles reported within 30 days.
 - (c) It extends coverage to newly acquired articles of a type not already insured.
 - (d) It extends coverage to newly acquired articles up to the policy limit.
- A40. The Increased Cost - Demolition or Construction (for Dwellings) Endorsement
- (a) amends the insurer's claims payment obligations.
 - (b) extends the coverage under the habitational form to which it is attached.
 - (c) requires a separate amount of insurance.
 - (d) (a) and (b)

**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

- B41. General Condition 1.1, Representation of risk, requires that the client or insured represent to the insurer, to the best of his knowledge,
- (a) all facts about the risk.
 - (b) all material facts about the risk except those the insurer knows or may be expected to know unless the insurer asks for those too.
 - (c) only material facts the insurer does know or may be expected to know.
 - (d) only those material facts about the risk requested by the insurer.
- B42. Under General Condition 2.1, Insurable interest,
- (a) a loss is recoverable if an insurable interest in the lost property existed at the time of the loss.
 - (b) a person has an insurable interest in property the loss or deterioration of which may cause him direct and immediate damage.
 - (c) for the insured to recover a loss, the insurable interest must have existed for the length of the contract.
 - (d) (a) and (b)
- B43. Under General Condition 4.5, Time of payment, the insurer shall pay the indemnity
- (a) provided the insured has paid the policy premium.
 - (b) within 60 days of receiving the notice of loss.
 - (c) within 65 days of receiving all relevant information and vouchers.
 - (d) (a) and (b)

- B44. Under the Building and/or Contents forms, **dwelling building** does NOT extend to
- (a) building fixtures and fittings.
 - (b) detached private structures.
 - (c) fences and gates.
 - (d) outdoor swimming pools.
- B45. A building is insured under a Building and/or Contents Named Perils Form for \$120,000 while two detached private structures, a guest cottage and a garage, are collectively insured for \$12,000. If the cottage and garage are worth \$12,000 and \$6,000 respectively, what amount of insurance is available for the cottage in the event of loss?
- (a) \$ 4,000
 - (b) \$ 6,000
 - (c) \$ 8,000
 - (d) \$12,000
- B46. The extensions of coverage in the Building and/or Contents forms (BCF) for "debris removal" and "property removed" differ from their counterparts in the Basic Fire Policy in that
- (a) property removal coverage in the BCF does not proportionally divide the amount of insurance between locations.
 - (b) property removal coverage is extended in the BCF for 30 days.
 - (c) debris removal costs under the BCF are included in the amount of insurance required by the Coinsurance Clause.
 - (d) debris removal coverage in the BCF can increase the amount of insurance.
- B47. Contents are covered for all risks under the
- (a) Homeowners Standard Form.
 - (b) Homeowners Broad Form.
 - (c) Homeowners Comprehensive Form.
 - (d) (b) and (c)
- B48. There is limited coverage for trees, shrubs, and plants under
- (a) all Homeowners forms.
 - (b) only the Homeowners Comprehensive Form.
 - (c) the Building and/or Contents forms and all Homeowners forms.
 - (d) the Building and/or Contents forms and the Homeowners Standard Form.

- B49. Under the Homeowners forms, which of the following are considered motorized vehicles and therefore NOT covered under Coverage C (Personal Property)?
- (a) Camper units
 - (b) Motorized lawn mowers
 - (c) Motorized wheelchairs
 - (d) Remote-control caddies
- B50. Which of the following is NOT true of a Condominium Syndicate?
- (a) It buys insurance for the condominium units on behalf of their owners.
 - (b) It buys insurance for the condominium building on behalf of its owners.
 - (c) Its bylaws are binding on all members of the Syndicate.
 - (d) Its members comprise the owners of the condominium units.
- B51. Scheduled Personal Articles Insurance is intended to insure
- (a) items attractive to thieves or susceptible to being misplaced.
 - (b) items that are not likely to be misplaced.
 - (c) large high-value personal items.
 - (d) small low-value personal items.
- B52. Which of the following is true of the Newly Acquired Articles Clause in Scheduled Personal Articles Insurance?
- (a) It automatically extends coverage to newly acquired articles reported within 30 days.
 - (b) It extends coverage, at the insurer's option, to newly acquired articles reported within 30 days.
 - (c) It extends coverage to newly acquired articles of a type not already insured.
 - (d) It extends coverage to newly acquired articles up to the policy limit.
- B53. The Contingent Liability from Enforcement of Building By-laws Endorsement
- (a) amends the insurer's claims payment obligations.
 - (b) extends the coverage under the habitational form to which it is attached.
 - (c) requires a separate amount of insurance.
 - (d) (a) and (b) (2 marks each = 80 marks)

SECTION B: NARRATIVE QUESTIONS

ALL STUDENTS

- Question 2. (a) State the particulars required in any fire insurance policy by the provincial Insurance Acts. (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 contract are available. Identify FIVE (5) types of such property. (5 marks)
- Question 3. (a) Identify the THREE (3) elements of a fortuitous loss. (6 marks)
- (b) Define the term **fire**. (2 marks)
- (c) Compare **friendly fire** with **hostile fire** and give an example of each. (6 marks)
- (d) Identify THREE (3) types of damage (other than by fire itself) that are considered fire damage and that are covered as such under a fire policy. (6 marks)
- Question 4. 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) Fire Department Charges (5 marks each = 10 marks)
- Question 5. In each of the following, state whether your answer applies to Common law or Quebec. With respect to the Homeowners Basic/Standard Form:
- (a) How does unoccupancy that lasts several months affect the coverage? To what extent? What should be done about it? (4 marks)
- (b) What coverage is there on personal effects while outside the premises? (3 marks)
- (c) What coverage is there on jewellery items? (3 marks)
- Question 6. With respect to the Condominium Unit Owners forms:
- (a) Briefly explain the purpose of the Loss Assessment coverage. (10 marks)
- (b) Briefly explain the purpose of the Improvements and Betterments coverage. (10 marks)
- Question 7. Describe the coverage provided by TWO (2) of the following. Mention the property and locations covered and give an outline of the perils insured against, as well as of any special provisions or limitations.
- (a) Personal Articles Insurance (Scheduled Personal Articles Insurance for Quebec students)
- (b) Fine Arts Insurance (Personal Computer Insurance for Quebec students)
- (c) Outboard Motor and Boat Insurance (10 marks each = 20 marks)

SECTION C: APPLICATION QUESTIONS

ALL STUDENTS

Question 8. (a) Under the Homeowners forms, there is some coverage for **glass breakage**. Explain why the following losses would or would not be paid under this coverage:

- i) The neighbour's child breaks the insured's glass table top.
- ii) A guest slips and breaks a glass patio door.
- iii) An employee of the contractor hired to build a second storey to the house accidentally breaks a large existing bay window (the insured had obtained permission from the insurer for the construction).
- iv) While the house has been vacant for a month and a half, a neighbour accidentally breaks the rear patio door while trying to clear some snow (the insurer had been notified that the house would be temporarily vacant).

(2 marks each = 8 marks)

(b) Under the Homeowners forms, there is some coverage for **transportation**. Explain why the following losses would or would not be paid under this coverage:

- i) The insured is bringing to his son's house a china set that has been in the family for generations. Along the way, he becomes distracted and the car he is driving overturns - the china set is destroyed.
- ii) The insured is bringing his canoe to a storage facility for the winter. He has tied it on the roof of his car. At one point, for unknown reasons, the ropes break and the canoe is destroyed.
- iii) The insured has sent his furniture by train to his new hometown. There is a derailment and the furniture suffers heavy damage.

(2 marks each = 6 marks)

(c) Under the Homeowners forms, there is some coverage for **vandalism or malicious acts (vandalism in Quebec)**. Explain why the following losses would or would not be paid under this coverage:

- i) Damage to the insured's house caused by a neighbour throwing rocks
- ii) Damage to the furniture caused by thieves
- iii) Damage to all windows on one side of the house caused by the insured's senile uncle who lives with him permanently

(2 marks each = 6 marks)

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