



CIP PROGRAM
EXAMINATION
DECEMBER 2005

THIS EXAM COVERS THE MATERIAL IN BOTH OF THE FOLLOWING COURSES:

*(has question
on Ch. 3)*

**C12 INSURANCE ON PROPERTY
AND C12 INSURANCE ON PROPERTY – PART 1**

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.

Part 1 ALL STUDENTS

1. In the common law provinces, insurance contracts are regulated by the

- (A) Financial Institutions Act.
- (B) Insurance Acts.
- (C) Statutory Conditions.
- (D) Policy Conditions.

2. Statutory Conditions in the common law provinces
 - (A) are binding on the insurer but not on the insured.
 - (B) must be printed in every fire insurance policy according to the insurer's own wording.
 - (C) must be printed in every fire insurance policy exactly as set out in the Insurance Acts.
 - (D) have no effect if they are not printed in the fire insurance policy.

3. Factors in determining depreciation include all of the following EXCEPT the
 - (A) normal life expectancy of the property.
 - (B) original purchase price of the property.
 - (C) physical condition of the property immediately before the loss.
 - (D) resale value of the property immediately before the loss.

4. In the common law provinces, a policy issued after the insurer receives a written application
 - (A) can be rejected by the insured within four weeks of receiving notice of differences.
 - (B) can be revoked by the insurer within two weeks of its issue.
 - (C) is deemed provisional pending the insured's acceptance of the policy in writing.
 - (D) is deemed to reflect the application unless the insurer notes the differences in writing.

5. Under the Basic Fire Policy, the "removal of insured property" extension is
 - (A) effective for a maximum of 14 days.
 - (B) mandatory as it is in all fire policies.
 - (C) not affected by the expiry date of the policy.
 - (D) included at the insurer's discretion.

6. 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) increases the amount of insurance on the policy.
 - (B) does not apply to property that was in the care, custody, or control of the insured.
 - (C) is for 7 days or until the policy expires, whichever happens first.
 - (D) is for 30 days.

7. In Quebec, policy conditions added by the insurer to the relevant provisions of the Civil Code (ch. 3)
 - (A) must accompany the relevant articles of the Civil Code included with the policy.
 - (B) must be printed in the policy to have legal effect.
 - (C) need not accompany the relevant articles of the Civil Code included with the policy.
 - (D) need not be printed in the policy to have legal effect.

8. The General Conditions (Quebec) do NOT deal with (ch. 3)
 - (A) warranties.
 - (B) deductibles.
 - (C) material change in risk.
 - (D) misrepresentation or concealment.

(ch. 3)

9. Insured property at any location described in one item
- (A) may comprise a number of objects within a class of objects. (ch. 4)
 - (B) usually includes a description of up to three different items.
 - (C) always comprises only one object.
 - (D) none of the above
10. A typical Waiver of Coinsurance Clause nullifies the Coinsurance Clause for losses
- (A) exceeding either 2% of the amount of insurance or \$5,000.
 - (B) where the calculation of actual cash value to determine if a coinsurance penalty applies is economical. (ch. 4)
 - (C) exceeding neither 2% of the amount of insurance nor \$5,000. ✓
 - (D) and applies to the total amount of the loss for all items covered by the policy.
11. The Stated Amount Coinsurance Clause
- (A) expires with the policy. x
 - (B) insulates the insured from changes in valuation that might otherwise penalize the insured in a partial loss. ✓
 - (C) includes a more restrictive Waiver of Coinsurance Clause than the standard Coinsurance Clause. (ch. 4)
 - (D) specifies the minimum amount of insurance as a percentage of value.
12. The total amount of insurance applicable on several buildings may, when a loss occurs, be apportioned by the ratio of the values in each building to the values in all buildings. This provision is known as the
- (A) Average Distribution Clause. ✓ (ch. 4)
 - (B) Deferred Payment Clause.
 - (C) Rebuilding Clause.
 - (D) Permission Clause.
13. The main benefit of a Mortgage Clause is that
- (A) it protects the mortgagee in the event of a loss even if the insured breaches a policy condition. ✓ (ch. 4)
 - (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.
14. As a basis of loss settlement, actual cash value
- (A) is calculated as of the inception of the policy.
 - (B) is sometimes unfair to insureds.
 - (C) serves the principle of indemnity.
 - (D) (B) and (C)

15. Which of the following is NOT true of the Replacement Cost Endorsement?
- (A) Periodic payments will be made as the work progresses. ✓
 - (B) Replacement must be made promptly.
 - (C) Replacement must be with materials of similar kind and quality.
 - (D) Settlement will be limited to the actual cost of the work.
16. Under the additional peril of Impact by Vehicle, coverage includes loss
- (A) caused by aircraft or spacecraft being taxied inside or outside of buildings. ✓
 - (B) caused by articles dropped from aircraft or spacecraft.
 - (C) caused by land vehicles owned by the insured.
 - (D) of or damage to aircraft, spacecraft, or land vehicles themselves.
17. In order to avoid paying a claim presented under an all risks property policy, the insurer must prove that the
- (A) loss or damage is covered by the policy.
 - (B) loss or damage was fortuitous.
 - (C) property lost or damaged was insured property.
 - (D) peril that caused the loss is excluded.
18. Which of the following is NOT one of the standard additional perils on fire policies?
- (A) Earthquake
 - (B) Explosion
 - (C) Impact by Vehicle
 - (D) Leakage from Fire Protective Equipment
19. Which of the following is NOT true of Coverage D (Additional Living Expense) of the Homeowners forms?
- (A) It is commonly for an amount equal to 20% of the amount under Coverage A (Dwelling Building) and is in addition to that amount.
 - (B) It may be used to cover an increase in normal expense when access to the dwelling is prohibited by a civil authority.
 - (C) It may be used to pay for ordinary living expenses while the dwelling is being redecorated.
 - (D) It may be used to pay for the loss of rental income when the dwelling has been damaged by an insured peril and is being repaired.
20. Section I of the Homeowners forms covers
- (A) personal liability.
 - (B) property insurance.
 - (C) voluntary medical payments.
 - (D) all of the above

21. Under the Mass Evacuation provisions of Coverage D (Additional Living Expense) of the Homeowners forms, the
- (A) evacuation must be ordered by the person responsible for it.
 - (B) event necessitating the evacuation must be sudden and accidental.
 - (C) peril causing the evacuation must be insured in the policy.
 - (D) coverage provides for an unlimited period of time until it is safe to resume residency at the insured home.
22. Under the Homeowners Comprehensive Form, the extension of coverage that is considered a gesture in support of public policy is the
- (A) Arson Conviction Reward.
 - (B) Inflation Protection clause.
 - (C) Property Removed to Prevent Further Loss clause.
 - (D) Lock Replacement coverage.
23. Under the Homeowners forms, the Personal Property coverage extends to
- (A) aircraft.
 - (B) camper units.
 - (C) motorized vehicles.
 - (D) spare automobile parts.
24. The Credit Card extension of coverage in the Homeowners forms covers all of the following EXCEPT
- (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. ✓
25. **Statutory Condition 10 (Entry, Control, Abandonment):** This Statutory Condition provides that the insurer
- (A) must survey and examine loss to insured property at the insured's convenience after a loss.
 - (B) must consent to any abandonment of insured property to it by the insured.
 - (C) is entitled to control or possession of insured damaged property.
 - (D) must begin appraising or estimating loss to insured property immediately after the loss.

Part II ANSWER EITHER GROUP A OR GROUP B

GROUP A – COMMON LAW PROVINCES

- A26. Under the Homeowners forms, which of the following do NOT cover an indirect or consequential loss?
- (A) Additional Living Expense
 - (B) Change of Temperature
 - (C) Debris Removal
 - (D) Lock Replacement

A27. **Statutory Condition 6 (Requirements After Loss):** This Statutory Condition 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.

A28. **Statutory Condition 9 (Salvage):** This Statutory Condition

- (A) ensures that any loss the insured incurs will be fortuitous.
- (B) maximizes the value of the insured's salvage rights after a loss.
- (C) obligates the insurer to prevent further damage to damaged property.
- (D) entitles the insured to buy back the damaged property from the insurer.

A29. **Statutory Condition 13 (Replacement):** Under this Statutory Condition,

- (A) the insured receives a cash settlement to purchase replacement property for that which was damaged or destroyed.
- (B) an insurer may elect to have damaged property repaired, rebuilt, or replaced.
- (C) when the replacement option is chosen, there is unlimited time for completion of the work.
- (D) an insured may elect to have damaged property repaired, rebuilt, or replaced.

A30. Under the Residential Basic Form, which of the following would be included as an insured?

- (A) The named insured's mother in the house next door
- (B) The 25-year-old daughter of the named insured's best friend, temporarily boarding with her while attending university
- (C) The named insured's estranged husband, now separated from his wife
- (D) The 19-year-old daughter of the named insured, still living at home

A31. Under the Residential Basic Form, **dwelling building** means

- (A) the main dwelling building and any attached private structure
- (B) any detached private structure on the same property site.
- (C) the main dwelling building only.
- (D) any supplies and materials for the repair of the dwelling that are stored at an industrial self-storage site.

A32. The Homeowners Basic Form

- (A) automatically provides all risks coverage to certain property.
- (B) does not permit the addition of seasonal residences.
- (C) provides coverage on detached garages as an optional coverage.
- (D) uses the amount of coverage on the building as a basis for determining the amounts of certain other coverages.

- A33. 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 or damage caused by named perils only.
 - (C) provides all risks coverage of contents.
 - (D) provides property coverages based on percentages of the amount of insurance on the building.
- A34. In the Homeowners Basic Form, the Debris Removal extension
- (A) increases the amount of insurance under the policy.
 - (B) is identical to its counterpart in the Basic Fire Policy.
 - (C) is identical to its counterpart in the Residential Basic Form.
 - (D) all of the above
- A35. Under the Residential Basic Form, which of the following is covered under the peril of Windstorm?
- (A) Damage to the interior of a building as a result of hail that enters an open window
 - (B) Collapse of the roof due to snow load
 - (C) Damage to the contents of a building when the wind blows the roof off a building
 - (D) Collapse of fences on the property
- A36. 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.
- A37. 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
- A38. Condominium unit owners who might face special assessment if the Condominium Corporation underinsures the common elements can protect themselves by purchasing
- (A) Damage to Building coverage.
 - (B) Unit Additional Protection coverage.
 - (C) Improvements and Betterments coverage.
 - (D) Loss Assessment coverage.

- A39. Personal Articles Insurance
- (A) has a territorial limit of Canada and the United States of America.
 - (B) is subject to a deductible.
 - (C) covers on an all risks basis.
 - (D) is subject to coinsurance.
- A40. In Outboard Motors and Boats policies, the Full Average clause
- (A) mandates that the insured carry insurance of not less than 100% of the property's actual cash value.
 - (B) penalizes the insured if an appraisal was not provided to the insurer at the time of purchasing insurance.
 - (C) mandates that the insured carry insurance of not less than 100% of the property's replacement cost at the time of loss.
 - (D) penalizes the insured for underinsurance at the time of loss.

ANSWER Group B–QUEBEC only if you have NOT answered Group A–Common Law Provinces. If you have completed Group A, go directly to Section B: Narrative Questions.

GROUP B – QUEBEC

- B41. The Personal Property coverage in the Building and/or Contents Named Perils Form may include
- (A) drawn machinery.
 - (B) improvements and betterments.
 - (C) property temporarily in the insured's possession.
 - (D) all of the above
- B42. With respect to the peril of Falling Object, the
- (A) coverage applies to Dwelling Building but not to Personal Property.
 - (B) coverage applies to Personal Property but not to Dwelling Building.
 - (C) falling object must first damage the exterior of the building for coverage to apply.
 - (D) falling object must first strike the exterior of the building for coverage to apply.
- B43. Which of the following is FALSE of a Condominium Syndicate?
- (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 Syndicate.
 - (D) Its members are the owners of the condominium units.

- B44. Under the Building and/or Contents forms, which of the following would be included as an insured?
- (A) The named insured's mother in the house next door
 - (B) The 25-year-old daughter of the named insured's best friend, temporarily boarding with her while attending university
 - (C) The named insured's estranged husband, now separated from his wife
 - (D) The 19-year-old daughter of the named insured, still living at home
- B45. **General Condition 1.1 (Representation of risk):** This General Condition 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 facts about the risk requested by the insurer.
- B46. **General Condition 4.4 (Replacement):** This General Condition gives the insurer an alternative way to settle a claim
- (A) if the insured requests this option.
 - (B) subject to the rights of preferred or hypothecary creditors.
 - (C) that transfers the salvage rights to the insured.
 - (D) by permitting the insurer to change its offer to a cash settlement after it had originally opted to repair the damaged property.
- B47. 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
- B48. In the Homeowners Standard Form, the Debris Removal extension
- (A) increases the amount of insurance under the policy.
 - (B) pays the expense of removing debris blown onto the insured premises.
 - (C) pays the expense of removing debris of insured and uninsured property.
 - (D) does not increase the amount of insurance under the policy.
- B49. **General Condition 1.3 (Misrepresentations or concealment):** Under this General Condition, any dishonest representation of relevant facts by the insured before the contract is made allows the insurer to void the contract
- (A) only after a loss.
 - (B) only before a loss.
 - (C) only before the policy is actually issued.
 - (D) only if the insurer can prove the insured's bad faith.

- B50. **General Condition 2.3 (Assignment):** Under this General Condition, which of the following is NOT an exception to the rule that the insured's rights and obligations may be assigned only with the insurer's consent?
- (A) A transfer of interest from the insured to a co-insured
 - (B) The bankruptcy of the insured
 - (C) The death of the insured
 - (D) The sale of the property by the insured's heir
- B51. For people who live in rented premises, the Tenants Comprehensive Form
- (A) imposes a limit on property temporarily away from the premises.
 - (B) covers against loss or damage caused by named perils only.
 - (C) provides all risks coverage of contents.
 - (D) does not include the Lock Replacement clause.
- B52. Which of the following is true of the Guaranteed Replacement Cost provisions in the Homeowners forms?
- (A) The insured must insure the dwelling building for 125% of the replacement cost determined by a valuation guide.
 - (B) The provisions allow an insured to replace a destroyed dwelling building at another location.
 - (C) The provisions allow no deduction for depreciation and are subject to no other conditions.
 - (D) The insurer will pay replacement cost even if it exceeds the amount of insurance on the dwelling building, provided all conditions have been met.
- B53. Under the Personal Computer Endorsement (IBC Form 1551),
- (A) losses caused by lightning are covered.
 - (B) coverage is for named perils only.
 - (C) coverage may be available for up to 30 days on newly acquired items.
 - (D) all of the above
- B54. In Outboard Motors and Boats policies, the Full Average clause
- (A) mandates that the insured carry insurance of not less than 100% of the property's actual cash value.
 - (B) penalizes the insured if an appraisal was not provided to the insurer at the time of purchasing insurance.
 - (C) mandates that the insured carry insurance of not less than 100% of the property's replacement cost at the time of loss.
 - (D) penalizes the insured for underinsurance at the time of loss.
- B55. **General Condition 6 (Cancellation):** Under this General Condition, the policy may be terminated by
- (A) the insured subject to 15 days' notice to the insurer at the legal address shown on the policy.
 - (B) the insurer subject to 15 days' notice to the insured at the insured's last known address.
 - (C) the insurer at any time if the insured has been guilty of misrepresentation or non-disclosure.
 - (D) (A) and (C)

(2 marks each = 80 marks)

Section B: Narrative Questions

Question 2. (a) **ANSWER EITHER COMMON LAW or QUEBEC.**

Common Law

Give details of the following TWO (2) Statutory Conditions as they apply to fire insurance contracts.

- (i) Misrepresentation (6 marks)
- (ii) Change of interest (4 marks)

OR

Quebec

Give details of the following TWO (2) General Conditions as they apply to fire insurance contracts.

- (iii) Representation of risk (6 marks)
- (iv) Assignment (4 marks)

(b) With respect to Condominium Unit Owners forms, fully explain the purpose of the Improvements and Betterments coverage. (10 marks)

Question 3. (a) With respect to the Basic Fire Policy, provide additional details about each of the following exclusions, mentioning any special exceptions and if and how the exclusion can be removed.

- (i) Loss or damage to goods undergoing a process involving the application of heat if the loss results from the process. (4 marks)
- (ii) Loss or damage to insured property caused by contamination by radioactive material. (4 marks)
- (iii) Loss or destruction of or damage to a building or its contents while the building is being altered or added to. (4 marks)
- (iv) Loss or damage that occurs where the insured knows the building insured or containing the insured property has been vacant or unoccupied for more than 30 consecutive days. (4 marks)

(b) What are the provisions of the Automatic Reinstatement Clause? (4 marks)

Question 4. (a) Compare **friendly fire** with **hostile fire**. Give an example of each. (6 marks)

(b) Explain the doctrine of proximate cause as it might affect a claim under a fire policy. (6 marks)

(c) Identify FOUR (4) conditions that are usually found in endorsements providing replacement cost coverage on buildings. (8 marks)

Question 5. (a) **ANSWER EITHER (i) COMMON LAW or (ii) QUEBEC.**

Common Law

- (i) Describe in full the coverage provided for additional living expenses under the Residential Basic form.

OR

Quebec

- (ii) Describe in full the coverage provided for fair rental value under the standard Named Perils Building and/or Contents form. (10 marks)

- (b) Fully explain the provisions of the Other Insurance Clause that would be found in most fire insurance policies. (10 marks)

Question 6. (a) With respect to the Homeowners Basic Form or Homeowners Standard Form, identify FIVE (5) types of property to which the Special Limits of Insurance apply for any insured peril that causes a loss, excluding those types of property covered for theft only. Indicate if your answer refers to common law or Quebec. (10 marks)

(b) With respect to the Homeowners forms, discuss the coverage provided for Theft or Attempted Theft. Indicate if your answer refers to common law or Quebec. (10 marks)

Section C: Application Question

Question 7. Your insured owns a house and carries insurance on a Homeowners Comprehensive Form including guaranteed replacement cost, but no scheduled articles coverage. While the family, including the insured's visiting mother, is away on a 15-day trip during the Christmas holidays, a fire occurs at the residence. Prior to departure, arrangements were made with a neighbour to have the premises visited daily.

(a) On day seven of the trip, a fire occurred at the insured's residence. The neighbour had not visited the premises since day four. Could this result in denial of the claim? Briefly explain your answer. (4 marks)

(b) The building was declared a total loss and your client would like to rebuild on another lot that he owns two blocks away from the current location. Would the guaranteed replacement cost coverage apply? Explain why or why not. (5 marks)

(c) The insured's mother does not carry any form of property insurance at her principal location and had several personal effects at the insured's home that were destroyed in the fire. Can she claim under the insured's policy for her loss? Explain. (3 marks)

(d) Explain how the claim for contents coverage would be settled if the insured chooses not to replace all of his personal property. Include what is meant by **replacement cost**. (5 marks)

(e) Three pieces of jewellery that were not scheduled, worth a total of \$3,500, were also destroyed in the fire. What amount, if any would be payable? (3 marks)

