

QUESTION PAPER NO. **12**

THE INSURANCE INSTITUTE OF CANADA

EXAMINATIONS — JULY 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), (d), or (e) 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. In both the common law provinces and in Quebec, coverage under any fire insurance policy must
 - (a) equal or exceed a statutory maximum.
 - (b) equal or exceed a statutory minimum.
 - (c) not equal or exceed a statutory maximum.
 - (d) not equal or exceed a statutory minimum.

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)

continued over

3. In the common law provinces, a written application for insurance is made mandatory by
 - (a) precedents in case law.
 - (b) the Insurance Acts.
 - (c) the Statutory Conditions.
 - (d) all of the above
 - (e) none of the above

4. Which of the following is true concerning insurance contracts?
 - (a) The elements of the insurance contract are embodied in the Basic Agreement.
 - (b) Their five essential elements are unique to insurance contracts.
 - (c) Their terms can be determined by one of the two parties.
 - (d) They can be negotiated between willing parties for any purpose.

5. A direct loss is the
 - (a) economic loss that arises from the direct loss or damage to property.
 - (b) loss of economic value that occurs when property is damaged or destroyed.
 - (c) loss of income that arises when property is damaged or destroyed.
 - (d) loss of property that cannot be valued in economic terms.

6. In the fire policy, the amount recoverable for an insured loss is
 - (a) the actual cash value of damaged or destroyed property at the time the loss occurs.
 - (b) the amount of the insurance.
 - (c) the interest of the insured in the property.
 - (d) the least of (a), (b), or (c).
 - (e) the greatest of (a), (b), or (c).

7. Which of the following statements about the Basic Fire Policy is most accurate? Loss to goods undergoing a process involving the application of heat is
 - (a) excluded.
 - (b) excluded if it results from the process.
 - (c) excluded unless it occurs during the process.
 - (d) excluded unless it results from the process.

8. 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)

9. Insurance contracts in Quebec are governed by various articles in the parts of the Civil Code of Quebec concerning insurance. The Code
 - (a) does not require any of its articles to be included in a policy wording.
 - (b) does not require the insurer to send the insured a copy of the Code except at the insured's request.
 - (c) requires a copy of the Code to be sent to the insured with the policy.
 - (d) requires insurance policies to include those articles of the Code that apply to policies.

10. In a property insurance policy, the location of insured property is
 - (a) a critical feature of property description.
 - (b) incidental when there is only one location.
 - (c) less important for movable than for immovable property.
 - (d) not a concern where blanket coverage is provided.

11. Which of the following is NOT a common rating criterion for property risks?
 - (a) Amount of insurance
 - (b) Private fire protection
 - (c) Public fire protection
 - (d) Susceptibility of contents

12. 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

13. The Waiver of Coinsurance waives
 - (a) insurance to value.
 - (b) the Coinsurance clause at the insured's discretion.
 - (c) the Coinsurance clause at the insurer's discretion.
 - (d) the Coinsurance clause for losses of less than specified amounts.

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14. If the owner of a building worth \$300,000 buys \$200,000 of insurance on a policy with an 80% Coinsurance clause and a 2% Coinsurance waiver, then suffers a loss of \$8,000, his recovery under the policy (rounded to the nearest \$100) will be
- (a) \$5,300.
 - (b) \$6,700.
 - (c) \$7,400.
 - (d) \$8,000.
15. 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.
16. Which of the following is true of a fortuitous loss?
- (a) It results from an outside cause.
 - (b) It returns the insured to the position he enjoyed before the loss.
 - (c) It was bound to happen in any event.
 - (d) It was deliberately caused by the insured.
17. Which of the following types of loss are "fire damage" under a fire insurance contract?
- (a) Property burned and scorched by the heat from a friendly fire
 - (b) Property not burned but scorched by the heat from a friendly fire
 - (c) Property not burned but scorched by the heat from a hostile fire
 - (d) (a) and (b)
18. The law recognizes the proximate cause of a loss as
- (a) an approximation of the exact cause of the loss.
 - (b) the cause of loss agreed to by insurer and insured.
 - (c) the event that initiates the continuous chain of events leading to the loss.
 - (d) the indirect loss caused by the direct loss.
19. Under a property insurance policy, additions, alterations, or repairs may be permitted
- (a) if the insured advises the insurer of a material change and receives its consent.
 - (b) under a Permission clause that allows minor work of this kind.
 - (c) with the insurer's express written consent.
 - (d) all of the above

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20. In order to recover under an all risks policy, the insured need NOT prove that
- (a) the loss or damage is covered by the policy.
 - (b) the loss or damage was fortuitous.
 - (c) the property lost or damaged was insured property.
 - (d) (a) and (b)

Division II. ANSWER EITHER GROUP A OR GROUP B.

GROUP A. COMMON LAW PROVINCES

- A21. Statutory Condition 4, Material Change, provides that any change material to the risk and within the insured's control and knowledge
- (a) allows the insurer, under prescribed conditions, to terminate the contract or charge additional premium.
 - (b) may void the contract only as to the affected part.
 - (c) must be promptly notified in writing to the insurer.
 - (d) all of the above
- A22. Statutory Condition 5 provides that, when an insurance policy is terminated by the insurer, the insurer shall refund
- (a) the entire policy premium.
 - (b) the excess of the premium actually paid by the insured over the pro rata premium for the expired time.
 - (c) the excess of the premium actually paid over the short rate premium for the expired time.
 - (d) the return premium specified in the policy for terminations.
- A23. Statutory Condition 7, Fraud, provides that, concerning a statutory declaration in relation to a loss,
- (a) any fraud or wilfully false statement prevents the insured's recovery for other insured losses.
 - (b) any fraud or wilfully false statement terminates the policy.
 - (c) if fraud is proven regarding only part of a claim, only that part of the claim may be denied.
 - (d) if fraud is proven regarding only part of a claim, the entire claim may be denied.

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- A24. 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.
- A25. In the Residential Basic Form, the term **dwelling building** means
- (a) the main dwelling building only.
 - (b) the main dwelling building and any attached private structures.
 - (c) the main dwelling building and any detached private structures.
 - (d) (b) and (c)
- A26. In the Residential Basic Form, which of the following is NOT covered under Fair Rental Value?
- (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.
- A27. Which of the following is NOT named under most fire policies but is specifically mentioned as an insured peril under the Residential Basic Form?
- (a) Explosion
 - (b) Falling Object
 - (c) Fire or Lightning
 - (d) Impact by Aircraft or Land Vehicle
- A28. The wording of the Residential Basic Form states that the Vandalism or Malicious Acts peril 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
- A29. The vacancy exclusion in the Residential Basic Form
- (a) does not refer to unoccupancy.
 - (b) excludes unoccupancy as well as vacancy.
 - (c) is based on a period of 60 days rather than 30.
 - (d) is the same as that in the Basic Fire Policy.

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- A30. The peril of Riot is
- (a) insured under the Basic Fire Policy.
 - (b) not insured under the Basic Fire Policy but is insured under the Residential Basic Form.
 - (c) not insured under the Residential Basic Form.
 - (d) not insured under either the Basic Fire Policy or the Residential Basic Form.
 - (e) none of the above
- A31. Which of the following would qualify for a Homeowners Form? Someone who
- (a) lives in a townhouse condominium that he owns.
 - (b) lives in a triplex and rents out two of the units.
 - (c) owns an eight-suite two-storey apartment building.
 - (d) rents a bungalow in a good neighbourhood.
- A32. Buildings are covered only for named perils under
- (a) the Homeowners Comprehensive Form.
 - (b) the Homeowners Broad Form.
 - (c) the Homeowners Basic Form.
 - (d) (b) and (c)
- A33. The optional extensions of coverage under Coverage A, Dwelling Building, of the Homeowners forms include
- (a) building fixtures and fittings.
 - (b) detached private structures.
 - (c) fair rental value.
 - (d) (a) and (b)
- A34. Which of the following are NOT excluded under the Personal Property coverage of a Homeowners form?
- (a) Aircraft
 - (b) Camper units
 - (c) Motorized vehicles
 - (d) Spare automobile parts
- A35. Lawns are excluded from coverage under
- (a) the Basic Fire Policy but not the Residential Basic Form.
 - (b) both the Basic Fire Policy and the Residential Basic Form but not the Homeowners forms.
 - (c) all Homeowners forms.
 - (d) all Homeowners forms except the Comprehensive Form.

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- A36. Which of the following perils is covered under both the Residential Basic Form and the Homeowners forms?
- (a) Glass Breakage
 - (b) Impact by Aircraft or Land Vehicle
 - (c) Theft
 - (d) Transportation
- A37. The Tenants and the Homeowners Comprehensive forms differ in that a clause in Coverage C in the Tenants Form extends coverage to
- (a) improvements and betterments.
 - (b) personal property of an insured student temporarily away from home.
 - (c) personal property temporarily away from the premises.
 - (d) uninsured personal property of others.
- A38. Which of the following is NOT true about condominiums or their owners?
- (a) A condominium unit owner buys insurance for his share of the common elements.
 - (b) A condominium unit owner owns his cube of space.
 - (c) Condominium unit owners collectively make up the condominium corporation.
 - (d) Many condominiums are apartment buildings.
- A39. The Personal Articles form is used for which of the following classes of property?
- (a) Cameras, firearms, furs, jewellery
 - (b) Camper units, musical instruments, radios, silverware
 - (c) Coins, radios, stamps, watercraft
 - (d) Credit cards, firearms, musical instruments, silverware
- A40. The Increased Cost-Demolition or Construction (for Dwellings) Endorsement does NOT
- (a) cover the additional cost to repair a dwelling as required by law.
 - (b) cover the cost of adding or repairing a sprinkler system required by law.
 - (c) pay less than the amount of insurance shown in the Coverage Summary.
 - (d) pay more than the minimum amount required to comply with any law.

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**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. General Condition 1.2, Material change in risk, provides that any material change in risk that results from events within the insured's control
- (a) allows the insurer to terminate the contract from the date of change.
 - (b) must be promptly notified to the insurer.
 - (c) requires the insurer, on being notified, to propose a new premium.
 - (d) all of the above
- B42. In the event of a loss, General Condition 3.6, Safeguarding and examination of property, requires the insured to
- (a) estimate the value of damaged property before removing it for safekeeping.
 - (b) help expedite the insurer's investigation by repairing damaged property before notifying the insurer.
 - (c) relinquish damaged property to the insurer.
 - (d) take all reasonable steps to prevent further loss or damage to the insured property.
- B43. General Condition 4.2, Pair and set, provides that
- (a) loss of an article shall be measured as a fair proportion of the value of the set.
 - (b) loss of an article shall be construed to mean loss of the set.
 - (c) loss of a scheduled article shall be construed to mean loss of the set.
 - (d) loss of an unscheduled article is not covered.
- B44. In the Building and/or Contents forms, the term **premises** means
- (a) the land contained within the lot lines on which the dwelling is situated.
 - (b) the main dwelling building.
 - (c) the main dwelling building and any detached private structures.
 - (d) (a) and (c)

continued over

- B45. The Personal Property coverage of the Building and/or Contents forms 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.
- B46. In the Building and/or Contents Named Perils Form, which of the following is NOT covered under Fair Rental Value?
- (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 rented
 - (d) Income from a part of the dwelling being held for rent
- B47. Which of the following is NOT named under most fire policies but is specifically mentioned as an insured peril under the Building and/or Contents forms?
- (a) Explosion
 - (b) Falling Object
 - (c) Fire or Lightning
 - (d) Impact by Aircraft or Land Vehicle
- B48. The wording of the Building and/or Contents forms states that the Vandalism peril 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
- B49. The peril of Riot is
- (a) insured under the Basic Fire Policy.
 - (b) not insured under the Building and/or Contents forms (BCF).
 - (c) not insured under the Basic Fire Policy but insured under the BCF.
 - (d) not insured under either the Basic Fire Policy or the BCF.
 - (e) none of the above

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- B50. The vacancy exclusion in the Building and/or Contents forms
- (a) does not refer to unoccupancy.
 - (b) excludes unoccupancy as well as vacancy.
 - (c) is based on a period of 60 days rather than 30.
 - (d) is the same as that in the Basic Fire Policy.
- B51. Which of the following would qualify for a Homeowners Form? Someone who
- (a) lives in a townhouse condominium that he owns.
 - (b) lives in a triplex and rents out two of the units.
 - (c) owns an eight-suite two-storey apartment building.
 - (d) rents a bungalow in a good neighbourhood.
- B52. Buildings are covered only for named perils under
- (a) the Homeowners Comprehensive Form.
 - (b) the Homeowners Broad Form.
 - (c) the Homeowners Standard Form.
 - (d) (b) and (c)
- B53. The additional coverage under Coverage A, Dwelling Building, of the Homeowners Standard Form includes
- (a) building fixtures and fittings.
 - (b) detached private structures.
 - (c) fair rental value.
 - (d) (a) and (b)
- B54. Lawns are omitted or excluded from coverage under
- (a) the Basic Fire Policy but not the Building and/or Contents forms.
 - (b) both the Basic Fire Policy and the Building and/or Contents forms but not the Homeowners forms.
 - (c) all Homeowners forms.
 - (d) all Homeowners forms except the Comprehensive Form.

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- B55. Which of the following are NOT excluded under the Personal Property coverage of the Homeowners Standard Form?
- (a) Appliances permanently affixed to a mobile home
 - (b) Motorized vehicles
 - (c) Trailers
 - (d) Watercraft on the insured premises
- B56. Which of the following perils is covered under both the Building and/or Contents forms and the Homeowners forms?
- (a) Glass Breakage
 - (b) Impact by Aircraft or Land Vehicle
 - (c) Theft
 - (d) Transportation
- B57. The Tenants and the Homeowners Standard forms differ in that a clause in Coverage C in the Tenants Form extends coverage to
- (a) improvements and betterments.
 - (b) personal property of an insured student temporarily away from home.
 - (c) personal property temporarily away from the premises.
 - (d) uninsured personal property of others.
- B58. Which of the following is NOT true about condominiums or their owners?
- (a) A condominium unit owner buys insurance for his share of the common elements.
 - (b) A condominium unit owner owns his cube of space.
 - (c) Condominium unit owners collectively make up the condominium syndicate.
 - (d) Many condominiums are apartment buildings.
- B59. The Scheduled Personal Articles form is used for which of the following classes of property?
- (a) Cameras, firearms, furs, jewellery
 - (b) Camper units, musical instruments, radios, silverware
 - (c) Coins, radios, stamps, watercraft
 - (d) Credit cards, firearms, musical instruments, silverware

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B60. The Contingent Liability from Enforcement of Building By-Laws
Endorsement does NOT

- (a) cover the additional cost to repair a dwelling as required by law.
- (b) cover the cost of demolishing a building before it is rebuilt to code.
- (c) pay less than the amount of insurance shown in the Coverage Summary.
- (d) pay more than the minimum amount required to comply with any law.

(2 marks each = 80 marks)

SECTION B: NARRATIVE QUESTIONS

ALL STUDENTS

- Question 2. The Basic Fire Policy includes several exclusions that are common to most policies of fire insurance. Outline FIVE (5) exclusions and mention whether the excluded property or peril is generally considered insurable under a fire policy. (20 marks)
- Question 3. (a) Contrast a **direct** fire loss with an **indirect** fire loss. Use examples. (4 marks)
- (b) The amount recoverable for an insured loss is stated to be the least of THREE (3) things. What are they? (6 marks)
- (c) Describe fully the provisions of the Coinsurance Clause. In your answer, give the formula used in adjusting a loss to which coinsurance might apply. (6 marks)
- (d) Explain how the Waiver of Coinsurance Clause operates and identify the limitations that you would find in a typical clause. (4 marks)
- Question 4. (a) Explain the use of Deferred Payment clauses in fire insurance policies, particularly the Rebuilding Clause frequently used in farm policies. (10 marks)
- (b) Compare the protection offered to a loss payee under a fire insurance policy to that offered to a mortgagee. (10 marks)

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- Question 5. (a) Explain why and how a fire insurance policy should give precise and unambiguous identification of the property insured, and give an example. (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 6. (a) Briefly outline the basic coverages provided under Section I (Property Coverages) of the Homeowners Basic or Standard Policy. (12 marks)
- (b) With respect to the Homeowners Basic or Standard Policy, describe the coverage provided with respect to TWO (2) of the following:
- i) Credit card losses
 - ii) Outdoor trees, shrubs and plants
 - iii) Personal property of students living away from home.
- (4 marks each = 8 marks)

SECTION C: APPLICATION QUESTIONS

ALL STUDENTS

- Question 7. With respect to the peril of Water Damage under a Residential Basic Form or a Building and/or Contents Named Perils form, one of the exclusions reads as follows:

We do not insure loss or damage caused by freezing ... during the usual heating season, if you have been away from your premises more than 4 consecutive days. However, if you had arranged for a competent person to enter the dwelling daily to ensure that heating was being maintained, or if you had shut off the water supply and drained all the pipes and appliances, you would still be insured.

The insured, in the middle of winter, is unexpectedly called away on a business trip that lasts exactly one week (Sunday to Saturday inclusive). Upon his return, he notices that some pipes inside the walls have burst, that water has leaked through the walls, and that no heat is coming from the furnace in the basement. The insured had not shut off the water supply or drained the pipes. Instead, he had arranged for the 15-year-old son of a neighbour to check that heating was being maintained. The neighbour's son did check on 4 consecutive days (Monday to Thursday inclusive).

- (a) Discuss how effectively the insured has complied with the policy condition. (6 marks)
- (b) In your opinion, would the insured's loss be covered? Explain. (4 marks)

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- Question 8. State whether the following items are covered under the Dwelling Building coverage of a Residential Basic Form or a Building and/or Contents Named Perils form:
- (a) A small two-room structure built in the yard and linked with the main dwelling by a wooden fence
 - (b) A wooden deck bolted to the house
 - (c) An awning that covers part of the deck in the summer but that is now stored in a warehouse for the winter
 - (d) A separate storage building on the premises
 - (e) Building materials delivered to the insured, who dumped all of it on the vacant lot adjoining his property (he will be using the materials in renovating the house) (2 marks each = 10 marks)

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