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: ☐ ☐ ☐ ☐

DO NOT MARK THE ANSWERS ON THESE PAGES.
USE THE FIRST PAGE OF YOUR ANSWER BOOK.

Part I ALL STUDENTS

1. The Insurance Acts (common law provinces) provide for insurance against lightning. This
   (A) excludes any loss or damage to electrical devices or appliances caused by lightning.
   (B) excludes loss or damage to electrical devices or appliances caused by lightning unless fire originates outside the article itself.
   (C) includes all types of physical loss or damage arising from lightning.
   (D) includes loss or damage to electrical devices or appliances caused by lightning unless fire originates outside the article itself.

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2. 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.

3. Under the Basic Fire Policy, a fire loss will be excluded if the fire
   
   (A) occurred as a result of a civil disturbance.
   (B) occurred during a war.
   (C) originated in a neighbouring property.
   (D) was started intentionally by someone other than the insured.

4. The Statutory Conditions (common law provinces) bind
   
   (A) the insured, not the insurer.
   (B) the insurer, not the insured.
   (C) both the insurer and the insured.
   (D) neither the insurer nor the insured.

5. In Quebec, policy conditions added by the insurer to the relevant provisions of the Civil Code
   
   (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.

6. Insured property at any location described in one item
   
   (A) may comprise a number of objects within a class of objects.
   (B) may comprise only one object.
   (C) necessarily comprises only one object.
   (D) (A) and (B)

7. The purpose of the Coinsurance clause in a fire insurance policy is to
   
   (A) discourage underinsurance.
   (B) reduce premiums for insureds.
   (C) reduce the insurer’s share of a loss.
   (D) reward a tolerance for risk.

8. 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) exceeding neither 2% of the amount of insurance nor $5,000.
   (C) not exceeding 2% of the amount of insurance, regardless of the amount of the loss.
   (D) not exceeding $5,000, regardless of the amount of insurance.

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9. If the owner of a building worth $150,000 buys $90,000 of insurance on a policy with an 80% Co-insurance clause, then suffers a loss of $60,000, his recovery under the policy will be
\[
\min \left( \frac{100,000}{120,000} \times 60,000 \right)
\] (Ch. 4)

(A) $42,500.
(B) $45,000.
(C) $60,000.
(D) $90,000.

10. In the event of loss, the Average Distribution clause in a property insurance policy

(A) apportions the amount of insurance by the ratio of values in each building to values in all buildings.
(B) apportions the amount of loss by the ratio of values in each building to values in all buildings.
(C) penalizes the insured for all losses where the total amount of insurance is less than the total values at risk.
(D) penalizes the insured if, when a loss occurs, the amount of insurance equals or exceeds the values at risk.

11. A fortuitous loss is

(A) not accidental in origin as far as the insured is concerned.
(B) the cause of loss to an extraneous object.
(C) the result of loss from a cause extraneous to the damaged object.
(D) the result of loss from a cause inherent to the damaged object.

12. Which of the following is NOT a fire loss under the Basic Fire Policy?

(A) Damage arising from combustion accompanied by visible glow or flame
(B) Destruction of a building by firefighters trying to create a fire break
(C) Loss of fuel burned by a nearby fire
(D) Loss of fuel burned in a fireplace

13. The proximate cause of a loss may be defined as

(A) an approximation of the exact cause of the loss.
(B) the event that immediately precedes the loss.
(C) the event that initiates the continuous chain of events leading to the loss.
(D) the indirect loss caused by the direct 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. 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

17. Which of the following best describes coverage under the Homeowners Broad Form?
   (A) All risks on Dwelling Building and all risks on Personal Property
   (B) All risks on Dwelling Building and named perils on Personal Property
   (C) All risks on Dwelling Building and named perils (excluding Theft) on Personal Property
   (D) Named perils (including Glass Breakage) on Dwelling Building and named perils
       (excluding Theft) on Personal Property

18. Section I of the Homeowners forms covers
   (A) personal liability.
   (B) property insurance.
   (C) voluntary medical payments.
   (D) all of the above

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. Generally, mobile homes differ from conventionally built homes in that they
    (A) are more durable than conventionally built homes.
    (B) are considered better risks because of their mobility.
    (C) have built-in equipment and furnishings.
    (D) all of the above
21. A condominium is best described as

(A) a form of property ownership in which each person owns a specific unit of a building or complex.
(B) a house or apartment with more than one occupant.
(C) an apartment building.
(D) being owned collectively by its members, each of whom buys a share in it.

22. The Civil Code of Quebec provides that a policy will cover property in Quebec according to the Civil Code.

(A) if the insurer's head office is located in Quebec.
(B) if the policyholder applied in Quebec for coverage or the insurer issued the policy in Quebec.
(C) if the policyholder requests that the policy do so.
(D) if the policyholder's interest could be better served by the Code than by the corresponding Insurance Act.

23. Under the Basic Fire Policy, a fire loss

(A) does not include damage caused by smoke, which is an additional peril.
(B) does not include property scorched by heat from a hostile fire.
(C) means all losses arising as a consequence of a friendly fire.
(D) means all losses arising as a consequence of a hostile fire.

24. What is the primary effect of settling losses on a replacement cost basis?

(A) No depreciation is applied.
(B) The insured gets a new item without restrictions or conditions.
(C) The insured is paid in cash and then makes his own property replacement arrangements.
(D) There is no noticeable difference between replacement cost and actual cash value settlements.

25. In the Homeowners forms, Coverage D (Additional Living Expense) excludes

(A) an insured peril that makes all or part of the dwelling uninhabitable.
(B) an order by civil authority.
(C) cancellation of a lease or agreement.
(D) all of the above
Part II  ANSWER EITHER GROUP A OR GROUP B

GROUP A (COMMON LAW PROVINCES)

A26. 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.

A27. Statutory Condition 9 (Salvage): The obligations imposed by this Statutory Condition

(A) ensure that any loss the insured incurs will be fortuitous.
(B) maximize the value of the insured's salvage rights after a loss.
(C) obligate the insurer to prevent further damage to damaged property.
(D) (A) and (C)

A28. Statutory Condition 10 (Entry, Control, Abandonment): This Statutory Condition provides that

(A) the insurer is entitled to control or possession of insured damaged property.
(B) the insurer may survey and examine loss to insured property immediately after the loss.
(C) the insurer may survey and examine loss to insured property at the insured's convenience after a loss.
(D) the insured may abandon property to the insurer without the insurer's consent.

A29. Which of the following is NOT an optional coverage extension under the Dwelling Building coverage of the Residential Basic Form?

(A) Attached private structures on the premises
(B) Prohibition of access by civil authority
(C) Rental value
(D) Temporarily removed building fixtures and fittings

A30. Which of the following have Special Limits of Insurance assigned them under the Personal Property coverage of the Residential Basic Form?

(A) Business property
(B) Money or bullion
(C) Numismatic property
(D) Securities

A31. Under the Water Damage peril of the Residential Basic Form, the sudden and accidental escape of water from a

(A) domestic appliance inside the dwelling is excluded.
(B) domestic appliance outside the dwelling is covered if caused by freezing.
(C) domestic appliance outside the dwelling is covered unless caused by freezing.
(D) plumbing system inside the dwelling is excluded.

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A32. The various Homeowners forms differ mainly in their
   (A) bases of claim payment and Statutory Conditions.
   (B) definitions and exclusions.
   (C) extensions of coverage and bases of claim payment.
   (D) perils insured and exclusions.

A33. 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.

A34. In the Condominium Unit Owners forms, Loss Assessment coverage
   (A) applies to the unit owner's improvements and betterments.
   (B) covers the unit owner's share of a shortfall in the condominium corporation's building
       insurance.
   (C) is also called Unit Additional Protection coverage.
   (D) all of the above.

A35. Personal Articles Insurance
   (A) applies anywhere in the world.
   (B) covers on a named perils basis.
   (C) is usually subject to the Deductible clause.
   (D) is usually written as a separate policy.

A36. Which of the following is true of Personal Articles Insurance?
   (A) It distinguishes between musical instruments that are played for a fee and those that are not.
   (B) It excludes musical instruments played for a fee without exception.
   (C) It is intended to cover the musical instruments of individuals as well as groups.
   (D) It terms the use of musical instruments played for a fee professional and the use of
       instruments played for no fee amateur.

A37. The main benefit of the Television and Antenna Endorsement is that it
   (A) covers property not covered under the Residential Basic Form or the Homeowners forms.
   (B) does not exclude loss caused by collapse, windstorm or hail, weight of ice, or snow or
       sleet.
   (C) does not exclude loss caused by water damage, including flood, ice or waterborne
       objects, and seepage or leakage.
   (D) has no sub-limit for the property it covers as in the Residential Basic Form or the
       Homeowners forms.
A38. Under the Special Limits of Insurance of the Residential Basic Form, which of the following will be covered only while on the insured premises?

(A) Business property (such as books and tools)
(B) Computer software
(C) Garden-type tractors (including attachments and accessories)
(D) Spare automobile parts

A39. Which of the following would NOT be a reason for a condominium corporation to assess individual condominium unit owners?

(A) A shortfall in the insurance bought by the corporation
(B) Shortfalls in unit owners' insurance for insured damage to their units
(C) The application of a coinsurance penalty to the settlement for loss to the building
(D) The breach of a condition in the insurance bought by the corporation

A40. Which of the following is true of the Newly Acquired Articles clause in 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.

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 1.3 (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.

B42. 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

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B43. **General Condition 3.1 (Notice of loss):** Under this General Condition,

(A) any failure of compliance will cause the insured to forfeit rights to compensation.
(B) any person may give notice of loss to the insurer.
(C) the insured must notify the insurer of all losses.
(D) the insured shall notify the insurer of any loss that may give rise to an indemnity.

B44. Which of the following is NOT stated as insured under Coverage A (Dwelling Building) of the Building and/or Contents Named Perils Form?

(A) Temporarily installed outdoor equipment on the premises
(B) Temporarily removed building fixtures and fittings
(C) Temporary car shelters installed on the premises
(D) Temporary stores on the premises of materials to repair the dwelling

B45. Which of the following have Special Limits of Insurance assigned to them under Coverage C (Personal Property) of the Building and/or Contents Named Perils Form?

(A) Garden-type tractors
(B) Watercraft
(C) (A) and (B)
(D) None of the above

B46. Under the Water Damage peril of the Building and/or Contents Named Perils Form, the sudden and accidental escape of water from a

(A) domestic appliance inside the dwelling is excluded.
(B) domestic appliance outside the dwelling is covered if caused by freezing.
(C) domestic appliance outside the dwelling is covered unless caused by freezing.
(D) plumbing system inside the dwelling is excluded.

B47. The various Homeowners forms differ mainly in their

(A) bases of claim payment and General Conditions.
(B) definitions and exclusions.
(C) extensions of coverage and bases of claim payment.
(D) perils insured and exclusions.

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) none of the above
B49. In the Condominium Unit Owners forms, Loss Assessment coverage

(A) applies to the unit owner’s improvements and betterments.
(B) covers the unit owner’s share of a shortfall in the condominium syndicate’s building insurance.
(C) is also called Unit Additional Protection coverage.
(D) all of the above

B50. Scheduled Personal Articles Insurance

(A) applies anywhere in the world.
(B) covers on a named perils basis.
(C) is never subject to the Deductible clause.
(D) is usually written as a separate policy.

B51. Which of the following is true of Scheduled Personal Articles insurance?

(A) It distinguishes between musical instruments that are played for a fee and those that are not.
(B) It excludes musical instruments played for a fee without exception.
(C) It is intended to cover the musical instruments of individuals as well as groups.
(D) It terms the use of musical instruments played for a fee professional and the use of instruments played for no fee amateur.

B52. Under the Personal Computer Endorsement (IBC),

(A) a limit is specified for each computer and piece of equipment and media.
(B) coverage is for named perils only.
(C) coverage may be available for up to 30 days on newly acquired items.
(D) (B) and (C)

B53. Under the Building and/or Contents Named Perils Form, which of the following will be covered only while on the insured premises?

(A) Books and tools pertaining to a business
(B) Garden-type tractors
(C) Watercraft
(D) None of the above

B54. Which of the following would NOT be a reason for a condominium syndicate to assess individual condominium unit owners?

(A) A shortfall in the insurance bought by the syndicate
(B) Shortfalls in unit owners' insurance for insured damage to their units
(C) The application of a coinsurance penalty to the settlement for loss to the building
(D) The breach of a condition in the insurance bought by the syndicate

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B55. 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.

(2 marks each = 80 marks)

Section B: Narrative Questions

Question 2. (a) Identify and briefly explain the perils insured under the Basic Fire Policy (not including any additional or extended perils), including any limitations or qualifications. (State whether your answer applies to the common law provinces or to Quebec). (6 marks)

(b) In connection with property insurance, identify FOUR (4) advantages of written applications over oral applications. (4 marks)

(c) Contrast a direct loss with an indirect loss, and give an example of each. (4 marks)

(d) Identify SIX (6) types of property excluded under the Basic Fire Policy but for which specific and specialized types of insurance contract are available. (6 marks)

Question 3. Fully explain the purpose and operation of the Stated Amount Coinsurance clause. Describe the type of risk that is likely to use the clause. (20 marks)

Question 4. (a) Explain why and how the insurable interest of a party other than the named insured may be protected under a fire policy. (10 marks)

(b) With respect to Condominium Unit Owners forms, fully explain the purpose of the Improvements and Betterments coverage. (State whether your answer applies to the common law provinces or to Quebec). (10 marks)

Question 5. Many of the additional perils included under fire policies have certain special restrictions applying individually to each peril. Describe the exclusions or limitations that would apply to each of the following:

(a) Explosion (6 marks)
(b) Impact by Vehicle (4 marks)
(c) Riot (4 marks)
(d) Windstorm or Hail (6 marks)
Question 6.  
(a) Contrast the coverage provided for uninsured personal property of others in the Residential Basic Form (or, in Quebec, the Building and/or Contents Named Perils Form) with that in the Homeowners forms.  
(2 marks)  
(b) With respect to the Homeowners Basic or Standard forms, describe the coverage provided for personal property of students living away from home. (State whether your answer applies to the common law provinces or to Quebec).  
(4 marks)  
(c) With respect to the Homeowners forms, define residence employee.  
(4 marks)  
(d) Answer Either (i) Or (ii)  
(i) Common Law - Describe the coverage provided by Fine Arts insurance. Mention the property and locations covered and outline the perils insured against, as well as any special provisions or limitations.  
(10 marks)  
OR  
(ii) Quebec - With respect to the Contingent Liability from Enforcment of Building By-laws Endorsement:

(1) Explain the effect of attaching this endorsement to the policy.  
(2) What effect does this endorsement have on the sum insured?  
(3) Identify the THREE (3) restrictions that apply to this endorsement.  
(4 marks)  
(2 marks)  
(4 marks)  

Section C: Application Question

Question 7.  
(a) With respect to the Residential Basic Form (or, in Quebec, the Building and/or Contents Named Perils Form), state whether the following items are covered under the Personal Property coverage. Explain in each case. (State whether your answer applies to the common law provinces or to Quebec).  
(2 marks each = 8 marks)

(i) The uninsured camera of a visitor that is destroyed in a fire at the insured's residence.  
(ii) Clothes taken by the insured during a holiday in Mexico.  
(iii) Personal belongings permanently kept at a secondary home.  
(iv) The insured's motorized lawn mower that is destroyed in a fire while in the insured's garage.
(b) The insured's home has been left vacant for the two weeks he is spending at his country house. When he comes back, he notices that a small amount of smoke has been seeping out of the furnace every day, thereby causing a significant accumulation of smoke. He has been told by the adjuster that there is no coverage. The insured is obviously upset, since the adjuster did not even ask him what type of policy he had. The insured would therefore like to know what type of policy, if any, would cover such a loss. What will you tell him? Explain fully. (State whether your answer applies to the common law provinces or to Quebec).