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 C

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

Part I: ALL STUDENTS

1. Which of the following is one of the standard additional perils that may be added to the Basic Fire Policy?

   (A) Insurrection
   (B) Rebellion
   (C) Revolution
   (D) Riot

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2. Under the Basic Fire Policy, the amount recoverable for an insured loss is

(A) the actual cash value of the property destroyed or damaged.
(B) the amount of insurance stated in the policy.
(C) the least of the actual cash value, the amount of insurance, and the insured's interest in the property.
(D) the replacement value of the damaged property.

3. The Basic Fire Policy covers

(A) fire damage to a building during renovations under certain circumstances.
(B) water damage resulting from pipes bursting due to freezing.
(C) loss of money, if the insured has the serial numbers of the bills.
(D) the increased cost of rebuilding a property because of a local bylaw.

4. The Basic Fire Policy excludes loss or damage when the insured knows the building containing the property insured has been vacant or unoccupied for at least

(A) 24 consecutive hours.
(B) 96 consecutive hours.
(C) 15 consecutive days.
(D) 30 consecutive days.

5. Under the Basic Fire Policy, loss or damage to goods undergoing a process that involves the application of heat is covered if that loss or damage resulted

(A) because the goods became so hot that they caught fire.
(B) from a fire starting elsewhere in the insured premises.
(C) from inattention on the part of the attending individual.
(D) from the heat process itself.

6. An example of an insurable loss under the Basic Fire Policy is

(A) damage to an automobile when the garage roof collapses due to snow.
(B) explosion damage to a house from a bomb planted during a revolution.
(C) smoke damage to the insured's newly painted house caused by a fire next door.
(D) none of the above

7. Under the Basic Fire Policy, if it is necessary to move property to protect it from loss,

(A) coverage for the moved property is automatically terminated under the policy.
(B) coverage for the moved property always remains in force for the remainder of the policy term.
(C) the amount of coverage available for the moved property is the amount left from what has already been incurred for the loss.
(D) there is no coverage for the moved property unless an endorsement is issued.

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8. In the common law provinces, the Statutory Conditions
   (A) apply to both oral and written fire insurance contracts.
   (B) apply whether included with the fire policy or not.
   (C) must be printed in every fire insurance policy.
   (D) all of the above

9. In the common law provinces, the Statutory Conditions 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.

10. In the common law provinces, the Insurance Acts state that
    (A) variations in the Statutory Conditions are binding only with the insured's consent.
    (B) variations in the Statutory Conditions may be negotiated between insurer and insured.
    (C) no variation in the Statutory Conditions is binding on the insured.
    (D) no variation in the Statutory Conditions is binding on the insurer.

11. Which of the following is FALSE of policy conditions in Quebec insurance contracts? (Ch. 3)
    (A) Additional conditions developed by individual insurers may be printed in the policy but will have no legal effect.
    (B) Additional conditions must be printed in the policy in order to have legal effect.
    (C) The conditions may reflect all the provisions of the Code governing property insurance.
    (D) The conditions may reflect some of the provisions of the Code governing property insurance.

12. Which of the following is a true statement?
    (A) General Conditions provide safeguards for the insured and impose obligations upon the insurer.
    (B) Insurers are free to decide which Statutory Conditions they wish to include in their policies.
    (C) Statutory Conditions and General Conditions are similar but not identical.
    (D) Statutory Conditions impose obligations only on the insurer.

13. The General Conditions
    (A) apply only to fire insurance risks.
    (B) are identical to Statutory Conditions in other provinces.
    (C) are established by court precedents.
    (D) may include sections of the Civil Code that govern insurance policies.

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14. The subject matter of a fire insurance policy is property described in the policy, in which the insured has an interest.
(A) (B) in the care, custody, and control of the insured.
(C) in which the insured has an interest.
(D) owned by the insured anywhere in the world.

15. Most fire losses are
(A) frequent but not severe.
(B) severe but not frequent.
(C) partial.
(D) total.

16. Which of the following is NOT a common rating criterion for property risks?
(A) Amount of insurance
(B) Building occupancy
(C) Public fire protection
(D) Susceptibility of contents

17. Insurance to value means coverage is
(A) subject to a Stated Amount Clause.
(B) based on 80% of the item’s value.
(C) based on higher limits reflecting the replacement value.
(D) to the full value of the property.

18. 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 tolerance for risk.
(C) states the percentage of the claim amount that will be paid in a total loss.
(D) penalizes the insured who chooses an inadequate amount of insurance.

19. The Waiver of Coinsurance Clause 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.
20. If the owner of a building valued at $300,000 buys a policy with $200,000 of coverage, an 80% Coinsurance Clause, and a 2% Waiver of Coinsurance Clause, then suffers a loss of $6,000, his recovery under the policy will be

(A) $ 1,200.
(B) $ 4,000.
(C) $ 5,000.
(D) $ 6,000.

21. A fortuitous loss is

(A) accidental in origin, as far as the insured is concerned.
(B) one made inevitable by inherent fault or defect in the object destroyed or damaged.
(C) one that benefits the insured.
(D) the result of willful or fraudulent action by the insured.

22. The proximate cause of a loss may be defined as the

(A) incident that breaks the chain of events that would otherwise have caused a loss.
(B) event that immediately precedes the loss.
(C) event that initiates the continuous chain of events leading to the loss.
(D) indirect loss caused by the direct loss.

23. 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

24. The Replacement Cost Endorsement usually includes which of the following conditions?

(A) Where there is more than one policy covering the same perils and interest, at least one must have the same replacement cost provision.
(B) Payment will be made for new material of like kind and quality.
(C) Replacement may be made at the insured's convenience.
(D) Settlement will be made at the time the insured provides the estimated cost for replacement.

25. Which of the following is NOT covered under the additional peril of Smoke?

(A) Smoke due to the sudden and faulty operation of a cooking unit
(B) Smoke from a fire next door
(C) Smoke from a grease fire in a pan on the stove
(D) Cumulative smoke damage from a furnace due to lack of maintenance

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Part II: ANSWER EITHER GROUP A OR GROUP B

GROUP A - COMMON LAW PROVINCES

A26. Statutory Condition 9, Salvage: Under this Statutory Condition, the insured

(A) can abandon the damaged property to the insurer,
(B) must arrange for repair of the damaged property immediately,
(C) must take all reasonable steps to prevent further loss or damage to the property,
(D) all of the above

A27. Statutory Condition 12, When Loss Payable: Under this Statutory Condition, an insured loss is payable by the insurer within

(A) 15 days after the loss.
(B) 30 days after completion of the proof of loss.
(C) 60 days after completion of the proof of loss.
(D) 90 days after the loss.

A28. Statutory Condition 13, Replacement: Under this Statutory Condition,

(A) an insured may elect to have damaged property repaired, rebuilt, or replaced.
(B) an insured may elect to have damaged property repaired, rebuilt, or replaced.
(C) when the replacement option is chosen, it is still subject to the amount of insurance.
(D) when the replacement option is chosen, there is unlimited time for completion of the work.

A29. Multi-peril policies typically include coverage for

(A) intentional damage.
(B) flood.
(C) theft.
(D) war.

A30. Which of the following is FALSE of all risks property policies?

(A) A peril or property not excluded is covered.
(B) Insurance coverage, as qualified, is against all risks of direct loss or damage.
(C) The exclusions limit coverage to that of a named perils form.
(D) The extent of coverage is determined by the exclusions.

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A31. 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, causing loss of rental value
- (C) Rental value
- (D) Building fixtures and fittings temporarily removed for repairs

A32. When property is covered under a Residential Basic Form and is also specifically described under a Personal Articles form, how is a loss on that property apportioned?

- (A) Neither the Residential Basic Form nor the Personal Articles form pays because double insurance is prohibited.
- (B) The Residential Basic Form and the Personal Articles form each pay half of the loss.
- (C) The Residential Basic Form pays up to its limit first.
- (D) The Personal Articles form pays up to its limit first.

A33. Under the Homeowners Comprehensive Form, the peril of Transportation provides coverage for

- (A) damage to insured property resulting from upset of the automobile carrying the property.
- (B) loss of luggage while the insured is travelling.
- (C) damage to property in a vacation or home trailer.
- (D) none of the above

A34. In the Mobile Homeowners Form, Coverage C (Personal Property)

- (A) differs from that in the Homeowners forms in one of the Special Limits of Insurance.
- (B) differs from that in the Homeowners forms in the first part of the description of property insured.
- (C) excludes certain property that is part of the corresponding coverage in the Homeowners forms.
- (D) all of the above

A35. Which of the following is true of condominium ownership?

- (A) Condominium unit owners must insure their part of the common elements of the building.
- (B) Condominium unit owners own the space inside their units and their contents but not any improvements bought or installed by them.
- (C) The Condominium Corporation does not provide contents insurance.
- (D) The Condominium Corporation never owns the land on which the building stands.
A36. Which of the following is true of the Condominium Unit Owners Comprehensive Form?

(A) The Loss Assessment coverage applies when the Condominium Corporation has inadequate insurance for loss or damage to any one individual unit.
(B) The Unit Additional Protection coverage applies when the Condominium Corporation has inadequate insurance for loss or damage to the common elements.
(C) The Unit Additional Protection coverage extends to the difference between the individual unit owner’s deductible and the Condominium Corporation’s deductible.
(D) The Unit Additional Protection coverage extends to the individual unit owner’s improvements and betterments.

A37. 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.

A38. Fine Arts Insurance

(A) covers breakage of fragile objects if caused by a Fire and Extended Coverage peril.
(B) covers repairs to insured items damaged during normal restoration.
(C) includes the cost of professional packing when an insured moves.
(D) is usually subject to a Deductible Clause.

A39. 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 of a type already insured if 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 provides unlimited coverage for newly acquired articles.

A40. The Increased Cost—Demolition or Construction (for Dwellings) Endorsement

(A) covers the cost of demolishing a partially burned building when rebuilding is to be done on another site.
(B) covers at least the maximum amount required to comply with any law.
(C) covers the cost of installing or repairing a sprinkler system when required by ordinance.
(D) is an automatic coverage provided by all Homeowners forms.

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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. Which of the following is true of the General Conditions?

(A) They prevent an insured from suing his insurer.
(B) They exclude coverage for fire resulting from a volcanic eruption.
(C) They ensure that, if one item of a pair is lost or damaged, the insurer will pay the total value of the pair.
(D) They do not define materiality.

B42. The General Conditions (Quebec) do NOT deal with

(A) cancellation.
(B) deductibles.
(C) material change in risk.
(D) misrepresentation or concealment.

B43. Article 3119 of the Civil Code of Quebec provides that a policy will cover property in Quebec according to the Civil Code if the

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

B44. 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 requires to set the premium.
(D) only those material facts about the risk requested by the insurer.

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B45. A building is insured under a Building and/or Contents Named Perils Form for $240,000 while two detached private structures—a guest cottage and a garage—are collectively insured for $24,000. If the cottage and garage are worth $24,000 and $12,000 respectively, what amount of insurance is available for the cottage in the event of loss?

(A) $6,000  
(B) $8,000  
(C) $16,000  
(D) $24,000

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 is unfit for occupancy  
(C) Income from a part of the dwelling being held for rent  
(D) Income from a part of the dwelling being rented

B47. Under the Homeowners Standard Form, the Debris Removal Clause

(A) may decrease the amount of insurance payable 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.

B48. Under the Homeowners Standard Form, the peril of Transportation provides coverage for

(A) damage to insured property resulting from upset of the vehicle carrying the property.  
(B) loss of luggage while the insured is travelling.  
(C) loss of property in a vacation or home trailer.  
(D) damage to watercraft and their equipment.

B49. With respect to mobile homes, which of the following is true of the Homeowners Broad Form?

(A) It omits any reference to mobile homes.  
(B) It specifies the same coverage as the Homeowners Standard Form.  
(C) Nothing in the Homeowners Broad Form precludes coverage for mobile homes.  
(D) (A) and (C)

B50. Which of the following is true of condominium ownership?

(A) Condominium unit owners must insure their part of the common elements of the building.

(B) Condominium unit owners own the space inside their units and their contents but not any improvements bought or installed by them.

(C) The Condominium Syndicate does not provide contents insurance.

(D) The Condominium Syndicate never owns the land on which the building stands.

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B51. 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

B52. Coverage under Scheduled Personal Articles Insurance

(A) applies only in Canada and the United States.
(B) is against named perils only.
(C) is provided for a collection by insuring each article of it individually.
(D) is usually subject to the Deductible Clause.

B53. Which of the following is FALSE of Scheduled Personal Articles Insurance?

(A) If a claim for damage to musical instruments is denied because of the business and professional use exclusion, the insurer cannot keep the premium for the coverage.
(B) If the insurer agrees to waive the exclusion of business and professional use of musical instruments, a higher rate will probably apply.
(C) It excludes business and professional use of musical instruments.
(D) It is intended to cover the musical instruments of individuals as well as groups.

B54. Generally, Outboard Motors and Boat Insurance

(A) is standard among insurers.
(B) provides worldwide coverage.
(C) offers more restrictive coverage for motor boats than do the Homeowners forms.
(D) schedules each boat with a separate amount of insurance.

B55. 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

Question 2.  (a) What is actual cash value and how is it determined when a loss occurs?  (5 marks)

(b) Under the Basic Fire Policy, explain how vacancy or unoccupancy affects coverage.  (15 marks)

Question 3.  (a) Identify and briefly comment on FOUR (4) factors that influence the rate charged for fire insurance on a mercantile or industrial building.  (12 marks)

(b) Discuss the use of Deferred Payment clauses in fire policies. Identify the type of risk where the most common example of a deferred payment clause is used.  (8 marks)

Question 4. With respect to the Residential Basic Form or the Building and/or Contents Named Perils Form,

(a) explain the purpose of the Coverage Summary and how it achieves that purpose.  (3 marks)

(b) identify who qualifies as an insured.  (6 marks)

(c) under what conditions is a structure considered detached as opposed to being part of the main dwelling?  (3 marks)

(d) describe the coverage provided by Fair Rental Value.  (8 marks)

Question 5. With respect to the Homeowners Basic or Standard Form,

(a) briefly outline the basic coverages provided under Section I (Property Coverages).  (12 marks)

(b) describe the coverage provided with respect to the following:
   (i) Outdoor trees, shrubs and plants  (4 marks)
   (ii) Personal property of students living away from home  (4 marks)

Question 6. All parts of this question refer to (Scheduled) Personal Articles Insurance.

(a) Identify FIVE (5) classes of property that are insured using this coverage.  (5 marks)

(b) Briefly discuss the coverage provided for Newly Acquired Articles.  (8 marks)

(c) Briefly discuss the Automatic Reinstatement clause as it applies in claims situations.  (7 marks)

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Section C: Application Question

Question 7.  
(a) You are an insurance broker representing an insured who has just suffered a total property loss. Your insured has just learned that the replacement cost coverage on a property policy is not automatic but rather certain conditions apply. Explain these conditions to your client.  

(b) You are a claims examiner who has been presented with the following claims. In each situation, the insured has a Basic Fire Policy with standard additional-perils coverage. Would you pay the claim? Briefly explain why or why not.

(i) The insured’s SUV was damaged at a private airport when the wing of a plane taxiing to the tarmac struck it.
(ii) The insured’s furnace has been emitting smoke over several months. The insured wants to claim for the cumulative damage to his house and furniture as a result of the smoke damage.
(iii) The river overflowed its banks after days of excessive rainfall. The water damaged stock kept in the basement of the insured’s building.
(iv) A small fire in the garbage can set off the sprinkler system. The insured wants his policy to pay for the water damage it caused.
(v) A tornado damaged the insured’s store and contents.

(2 marks each = 10 marks)