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  D

**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 true of written applications for property insurance in the common law provinces?

   (A) A policy, once issued, is deemed to supersede the application.
   (B) A written application for property insurance is always required.
   (C) In case of discrepancy between policy and application, the application prevails unless the insurer has noted the difference in writing to the insured.
   (D) The insured may reject the policy up to 30 days after receiving the notification.

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2. 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 in the process 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.

3. Which of the following is NOT classified as a fire loss under the Basic Fire Policy?
   (A) A fire set wilfully by a third party without the insured's consent destroys a garden shed.
   (B) A heating process buckles a metal ornament when heat is applied to it.
   (C) A young child throws an item into the fireplace and the item is burned.
   (D) Smoldering electrical wires destroy the insulation in the wall.

4. Loss under the Basic Fire Policy, while the insured building is being altered or added to, is excluded
   (A) even if not attributable to the work itself.
   (B) even in the case of normal repairs.
   (C) if resulting from such work.
   (D) (A) and (B)

5. Under the Basic Fire Policy, the Removal of Insured Property extension is
   (A) effective for a maximum of 14 days.
   (B) mandatory as far as the insurer is concerned.
   (C) not affected by the expiry date of the policy.
   (D) optional as far as the insurer is concerned.

6. Under the Basic Fire Policy, the cost of removing debris after a loss is
   (A) covered by the policy.
   (B) included in calculating the amount of insurance that may be required by a Coinsurance Clause.
   (C) included over and above the amount of insurance.
   (D) (A) and (C)

7. The Statutory Conditions (common law provinces) do NOT deal with
   (A) change of title of insured property.
   (B) premium.
   (C) right of access to premises after a loss.
   (D) salvage.

continued on next page
8. 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.

9. Most fire losses are

(A) frequent but not severe.
(B) severe but not frequent.
(C) partial.
(D) total.

10. 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.
(B) Deferred Payment Clause.
(C) Rebuilding Clause.
(D) Stated Amount Clause.

11. A hostile fire is best described as

(A) a fire in a place provided for it.
(B) a fire that escapes the boundaries provided.
(C) an overheated stove.
(D) intentionally kindled.

12. A replacement cost contract

(A) denies the principle of good faith.
(B) will pay "new" for "old"
(C) is a contract of compensation.
(D) will pay for a new item to replace an item lost, destroyed, or damaged, but will deduct therefrom the accumulated depreciation on such item.

13. Additional perils (extended coverages), when included within a property policy,

(A) add insurance on additional property.
(B) add insurance against additional perils.
(C) increase the amount of insurance coverage.
(D) remove exclusions from the policy.
14. Multi-peril policies typically include coverage for
   (A) deliberate damage, subject to the Deductible Clause.
   (B) flood.
   (C) theft.
   (D) war.

15. The Basic Fire Policy does NOT cover
   (A) damage caused by explosion of coal gas.
   (B) damage caused by explosion of manufactured gas.
   (C) lightning damage to the building.
   (D) smoke damage caused by the faulty operation of a furnace because of lack of
       maintenance.

16. Which of the following is generally NOT necessary for an occurrence to be classified as a
    fire loss under the Basic Fire Policy?
    (A) Actual ignition
    (B) Scorching
    (C) Something in the nature of an accident
    (D) Something on fire that ought not to be on fire

17. When a furnace in a dwelling malfunctions causing extreme smoke, damage is covered under
    (A) a boiler and machinery policy.
    (B) the additional perils of a property policy.
    (C) the fire section of a property policy.
    (D) all of the above

18. Every fire policy must cover at least
    (A) fire, explosion, and lightning.
    (B) fire, explosion, and water damage.
    (C) fire, lightning, and vandalism.
    (D) fire, smoke, and windstorm.

19. Under the Basic Fire Policy, which of the following is NOT a factor in determining
depreciation?
    (A) The normal life expectancy of the property
    (B) The original purchase price of the property
    (C) The physical condition of the property immediately before the loss
    (D) The resale value of the property immediately before the loss
20. The Basic Fire Policy excludes loss or damage when the insured knows the building insured or 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.

21. If the owner of a building worth $200,000 buys $150,000 of insurance on a policy with a 90% Coinsurance Clause and a 2% Waiver of Coinsurance Clause, then suffers a loss of $12,000, his recovery under the policy will be approximately

   (A) $ 9,600.
   (B) $10,000.
   (C) $10,800.
   (D) $12,000.

22. That event that results in a loss and without which the loss would not have occurred is referred to as the

   (A) first cause.
   (B) last cause.
   (C) proximate cause.
   (D) remote cause.

Part II  ANSWER EITHER GROUP A OR GROUP B

GROUP A (COMMON LAW PROVINCES)

23. Under Statutory Condition 1, Misrepresentation, the insurer may NOT void the policy if a material fact was

   (A) misrepresented innocently.
   (B) misrepresented intentionally.
   (C) omitted innocently.
   (D) omitted intentionally.

24. Under Statutory Condition 6, Requirements After Loss, the insured must deliver a proof of loss to the insurer

   (A) as soon as practicable.
   (B) as soon as the loss occurs.
   (C) within 60 days of the loss.
   (D) within 90 days of the loss.
25. Under the Residential Basic Form, the peril of Water Damage excludes freezing during the usual heating season while the insured has been away for

(A) more than 4 consecutive days.
(B) more than 2 consecutive days.
(C) up to 4 consecutive days.
(D) up to 2 consecutive days.

26. 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 insured property resulting from upset of the home trailer containing the property.
(D) (A) and (C)

27. Which of the following are NOT covered under Personal Articles Insurance?

(A) Cameras
(B) Firearms
(C) Watches
(D) Watercraft

28. Under Personal Articles Insurance, jewellery items are often insured on the basis of

(A) actual cash value.
(B) agreed value.
(C) depreciated value.
(D) purchase value.

29. Which of the following is NOT named under the Basic Fire Policy but is specifically mentioned as an insured peril under the Residential Basic Form?

(A) Explosion
(B) Falling Object
(C) Fire
(D) Lightning

30. Contents are covered only for named perils under

(A) the Homeowners Basic Form.
(B) the Homeowners Broad Form.
(C) the Homeowners Comprehensive Form.
(D) (A) and (B)

continued on next page
31. Under the Residential Basic Form, the Dwelling Building coverage does NOT extend to
   (A) building fixtures and fittings removed temporarily.
   (B) detached private structures.
   (C) fair rental value.
   (D) outdoor trees, shrubs, and plants.

32. Under the Residential Basic Form, which of the following coverage extensions under the
    Personal Property coverage relates to an indirect type of loss?
   (A) Additional living expense
   (B) Personal property while away from the premises
   (C) Personal property in a warehouse
   (D) Uninsured personal property of others while on the premises

33. Under the Residential Basic Form, the Personal Property coverage contains four optional
    coverage extensions. Which of the following does NOT belong in the group?
   (A) Additional living expense
   (B) Debris removal and automatic reinstatement
   (C) Personal property while away from the premises
   (D) Uninsured personal property of others

34. Under the Residential Basic Form, the Personal Property Away From the Premises optional
    coverage extension applies everywhere in
   (A) Canada only.
   (B) Canada and the United States.
   (C) the western hemisphere.
   (D) the world.

35. Under the Residential Basic Form, which of the following is NOT subject to the Special
    Limits of Insurance?
   (A) Bicycles
   (B) Business property
   (C) Computer software
   (D) Watercraft

36. Under the Homeowners forms, the losses covered under which of the following are NOT
    indirect or consequential losses?
   (A) Additional Living Expense
   (B) Change of Temperature
   (C) Debris Removal
   (D) Lock Replacement

continued over
37. Which of the following types of loss is NOT named in the Homeowners forms as having to be reported to the police?

(A) Attempted Theft
(B) Burglary
(C) Malicious Acts
(D) Riot

38. With respect to the peril of Windstorm or Hail, fences are included in the coverage under

(A) the Basic Fire Policy.
(B) both the Residential Basic Form and all Homeowners forms.
(C) all Homeowners forms.
(D) only the Homeowners Comprehensive Form.

39. Fine Arts Insurance has certain distinctive features. Which of the following does NOT belong in the group?

(A) All risks coverage
(B) Coverage may be restricted to Canada and the United States
(C) Full average clause
(D) Loss settlement not subject to a deductible

40. Which of the following is true of deductibles under the IBC Residential Basic Form?

(A) If a Special Limit applies to an item, the deductible comes off the Special Limit.
(B) if more than one item is involved in a loss, the deductible applies to each item separately.
(C) Only one deductible applies in any one occurrence.
(D) The deductible comes off the amount of insurance, not the amount of the 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 Question 2.

GROUP B (QUEBEC)

41. Under General Condition 2.1, Insurable interest, the insurable interest

(A) applies only to the owner of the property in question.
(B) must exist at the time of the loss.
(C) must have existed since the policy was issued.
(D) must have existed when the policy was issued.

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42. With respect to General Condition 5.1, Property insurance, which of the following is NOT a true statement?

(A) If there are two policies on the same property, an insured can collect from each one the proportion of the loss that the sum insured bears to the total amount of insurance.
(B) If there are two policies on the same property, an insured can collect the total loss from one, subject to policy limits.
(C) It is illegal to have two policies on the same property.
(D) It is permissible to have two policies on the same property if the perils insured are not identical.

43. Under the Building and/or Contents Named Perils Form, the peril of Water Damage excludes freezing during the usual heating season when the insured has been away for

(A) more than 4 consecutive days.
(B) more than 2 consecutive days.
(C) up to 4 consecutive days.
(D) up to 2 consecutive days.

44. 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 insured property resulting from upset of the home trailer containing the property.
(D) (A) and (C)

45. Which of the following are NOT covered under Scheduled Personal Articles Insurance?

(A) Cameras
(B) Firearms
(C) Watches
(D) Watercraft

46. Under Scheduled Personal Articles Insurance, jewellery items are often insured on the basis of

(A) actual cash value.
(B) agreed value.
(C) depreciated value.
(D) purchase value.

47. Which of the following is NOT named under the Basic Fire Policy but is specifically mentioned as an insured peril under the Building and/or Contents Named Perils Form?

(A) Explosion
(B) Falling Object
(C) Fire
(D) Lightning

continued over
48. Contents are covered only for named perils under
   (A) the Homeowners Standard Form.
   (B) the Homeowners Broad Form.
   (C) the Homeowners Comprehensive Form.
   (D) (A) and (B)

49. The Dwelling Building coverage under the Homeowners Standard Form includes
   (A) awnings, plants, and lawns.
   (B) building fixtures and storm doors.
   (C) garden sheds and outdoor trees.
   (D) trees, shrubs, and garden tractors.

50. Under the Homeowners Standard Form, which of the following is additional coverage under the Dwelling Building coverage?
   (A) Additional living expense
   (B) Detached private structures
   (C) Outdoor trees and shrubs, subject to certain limitations
   (D) Personal property

51. Under the Homeowners forms, the Personal Property coverage includes
   (A) camper units.
   (B) personal property at any other location owned by the insured.
   (C) property of an unrelated friend who boards with the insured.
   (D) wheelchairs.

52. The Homeowners Standard Form always covers
   (A) additional living expenses when the residence is made uninhabitable by a fire.
   (B) breakage of a glass table top.
   (C) building damage resulting from termites.
   (D) liability arising out of the insured's business operations.

53. The Homeowners Comprehensive Form contains a number of extensions of coverage. Which of the following does NOT increase the amount of coverage?
   (A) Arson conviction reward
   (B) Debris removal
   (C) Tear out
   (D) (A) and (B)

54. The Inflation Protection clause
   (A) is usually added at the insured's request.
   (B) is especially valuable in times of low inflation.
   (C) automatically increases the amount of coverage at regular intervals.
   (D) usually applies to buildings only.

continued on next page
55. Under the Homeowners Comprehensive Form, breakage of any fragile or brittle articles would be
   (A) excluded from the coverage.
   (B) excluded from the coverage if the loss was caused by any of the Specified Perils.
   (C) included in the coverage.
   (D) included in the coverage if the loss were due to vehicle impact.

56. Which of the following is true of the Tenants Standard Form?
   (A) It excludes dwelling improvements and betterments.
   (B) It extends conditional coverage for dwelling damage.
   (C) It extends coverage for building repairs required by water damage.
   (D) The coverage for Glass Breakage is the same as in the Homeowners Standard Form.

57. Under the Homeowners forms, which of the following is the premium based on?
   (A) The additional coverages
   (B) The liability limit
   (C) Limit on the dwelling building
   (D) Limit on the personal property

58. Under a Homeowners Comprehensive Form, the Special Limits of Insurance apply to
jewellery and coin collections
   (A) for all losses.
   (B) for theft losses.
   (C) if loss or damage was caused by a Specified Peril.
   (D) if loss or damage was caused by fire.
   (2 marks each = 80 marks)

Section B: Narrative Questions

Question 2. (a) Identify the particulars required in any fire policy by the Insurance Acts of the common law provinces or the Civil Code of Quebec. (8 marks)

(b) Describe in full the reasons for, and the provisions of, the Coinsurance Clause. In your answer, give the formula used in adjusting a loss to which coinsurance might apply. (12 marks)
Question 3.  
(a) Explain the use of the Rebuilding Clause in fire policies covering farms.  

(b) With respect to the Residential Basic Form (in Quebec, the Building and/or Contents Named Perils Form), under what conditions is a structure considered detached as opposed to being part of the main dwelling?  

(c) In addition to the Homeowners Basic or Standard Form, there are TWO (2) other types of Homeowners form in use for which IBC has standardized policies. Identify these TWO (2) forms and briefly explain how they differ from the Homeowners Basic or Standard Form.  

(10 marks)  
(4 marks)  
(6 marks)  

Question 4. 
(a) A fire policy will only respond to a fortuitous loss. What are the THREE (3) elements of a fortuitous loss?  

(b) Compare friendly fire with hostile fire. Use an example for each.  

(c) Answer either (i) or (ii)  

(i) With respect to the Residential Basic Form, identify the FOUR (4) optional coverage extensions available under the Dwelling Building coverage (common law provinces).  

(ii) With respect to the Building and/or Contents forms, identify FOUR (4) types of property that are insured under the Dwelling Building coverage other than the dwelling building itself (Quebec).  

(6 marks)  
(6 marks)  
(4 marks)  
(4 marks)  

(d) Answer either (i) or (ii)  

(i) With respect to the Residential Basic Form, identify the FOUR (4) optional coverage extensions available under the Personal Property coverage (common law provinces).  

(ii) With respect to the Building and/or Contents Named Perils Form, identify FOUR (4) types of property that are insured under the Personal Property coverage other than the personal property itself (Quebec).  

(4 marks)  
(4 marks)  

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Question 5.  (a) **Answer either (i) or (ii)**

(i) Identify the FOUR (4) coverages in a Homeowners policy under Section I, concerning property insurance, and THREE (3) of the coverages under Section II, concerning liability insurance (common law provinces).  
(7 marks)

(ii) Identify the FOUR (4) coverages in a Homeowners policy under Section I, concerning property insurance, and the THREE (3) coverages under Section II, concerning liability insurance (Quebec).  
(7 marks)

(b) **Answer either (i) or (ii)**

(i) With respect to the Homeowners Basic Form, identify EIGHT (8) types of property to which the Special Limits of Insurance apply for any insured peril that causes loss (common law provinces).  
(8 marks)

(ii) With respect to the Homeowners Standard Form, identify SIX (6) types of property to which the Special Limits of Insurance apply for any insured peril that causes loss. Also, identify TWO (2) other types of property for which the insurer is liable only up to a maximum dollar limit (Quebec).  
(8 marks)

(c) **Answer either (i) or (ii)**

(i) With respect to the Homeowners Basic Form, identify FIVE (5) types of personal property to which the Special Limits of Insurance apply only if such property is stolen (Common Law provinces).  
(5 marks)

(ii) With respect to the Homeowners Standard Form, identify the types of personal property to which the Special Limits of Insurance apply only if such property is stolen (Quebec).  
(5 marks)

Question 6.  **Answer (a) AND either (b) or (c)**

(a) Outline the coverage provided by Personal Articles Insurance (in Quebec, Scheduled Personal Articles Insurance).  
(10 marks)

(b) Outline the coverage provided by the Increased Cost - Demolition or Construction (for Dwellings) Endorsement (common law provinces).  
(10 marks)

(c) Outline the coverage provided by Personal Computer Insurance (Quebec).  
(10 marks)

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Section C: Application Question

Question 7.  
(a) Property is insured in the amount of $300,000 in a Basic Fire Policy containing an Average Distribution Clause. The property moves between Buildings A, B, C, and D during the course of manufacture and storage. A loss occurs and all the insured property in the warehouse (Building D) is destroyed. Immediately prior to the loss, the value of insured property in the four buildings was as shown below. Calculate how much the insurer would pay. Show your calculations.

- Building A - $ 90,000
- Building B - $ 72,000
- Building C - $ 54,000
- Building D - $ 144,000 (Total loss)  

(b) You are an insurance broker, and your insured has just learned that the replacement cost coverage he has is not really automatic—that is, certain conditions have to be complied with. Which such conditions would you identify?  

(c) You are an insurance broker, and your client is insured with a Residential Basic Form (in Quebec, a Building and/or Contents Named Perils Form). He has heard that, in case of a loss, he could conceivably receive more than the amount of insurance shown on his policy, depending on inflation. How would you explain to your insured the provisions of the Inflation Protection extension of coverage?