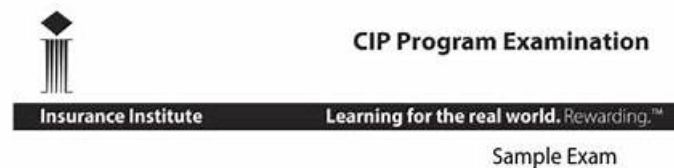


2026 IIC Perfect C11: Exam Principles and Practice of Insurance Objectives



C11 Principles and Practice of Insurance

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.

1. Insurance was developed as a result of the existence of

- (A) hazards.
- (B) indemnity.
- (C) loss.
- (D) risk.

Page 1 of 9

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IIC Principles and Practice of Insurance Sample Questions (Q88-Q93):

NEW QUESTION # 88

Why does the Office of the Superintendent of Financial Institutions (OSFI) control the types of investments insurers are allowed to make?

- A. To maximize insurers' returns on investments
- **B. To minimize insurers' investment loss exposures**
- C. To minimize industry indemnifications
- D. To maximize industry profits

Answer: B

Explanation:

OSFI regulates federally incorporated insurers to ensure they remain solvent and financially stable so they can pay claims. One of the key regulatory tools is restricting or monitoring insurers' investment portfolios. By controlling the types of investments insurers may purchase, OSFI aims to reduce exposure to excessive investment risks, ensuring that insurers do not jeopardize policyholder funds through speculative or volatile investments.

Option A is incorrect-OSFI's mandate is consumer protection, not profit maximization.

Option B is incorrect because indemnification amounts depend on claims, not investment rules.

Option C is incorrect-while returns are important, OSFI's priority is safety, not maximizing yield.

Thus, the correct purpose is D: minimizing insurers' investment loss exposures to protect policyholders and maintain financial stability.

NEW QUESTION # 89

When one reinsurer cedes part of its business to another reinsurer, what is the second reinsurer called?

- A. Cessionaire
- B. Alternate Insurer
- **C. Retrocessionaire**
- D. Primary Insurer

Answer: C

Explanation:

In the structure of reinsurance practices explained in Principles and Practice of Insurance, a retrocessionaire is the reinsurer that accepts risk from another reinsurer. This occurs through a process called retrocession, where a reinsurer (the retrocedent) transfers a portion of its assumed risk to another reinsurer to further spread exposure and maintain solvency stability.

The terminology is important:

The primary insurer issues the original policy to the insured.

The reinsurer (cessionaire) accepts risk from the primary insurer.

When that reinsurer then cedes part of the risk again, the receiving party is the retrocessionaire.

Retrocession is essential in risk-management frameworks because it allows reinsurers to diversify exposures and avoid concentration risks from catastrophic events. Therefore, the correct term for the second reinsurer is C. Retrocessionaire.

NEW QUESTION # 90

Jack is a first-time homeowner. How can he mitigate his risk?

- A. Purchase many different kinds of goods
- **B. Decrease his volume of risk**
- C. Increase his volume of risk
- D. Purchase insurance

Answer: B

Explanation:

Risk mitigation refers to reducing the frequency or severity of potential losses. A first-time homeowner can mitigate risk by taking proactive measures such as installing smoke alarms, securing doors and windows, maintaining the property, or eliminating hazards. These actions directly decrease the homeowner's volume of risk by reducing the probability of a loss or limiting its potential impact.

Option A-purchasing insurance-is not risk mitigation; it is risk transfer, where the financial consequences of loss are shifted to an

insurer. Insurance does not reduce the likelihood of loss; it only provides compensation after loss.
Option B is the opposite of mitigation.
Option D is irrelevant to risk management.
Thus, the correct answer is C: Decrease their volume of risk.

NEW QUESTION # 91

Huronial Insurance Company submitted incorporation documents and received approval to sell personal-lines property and automobile policies. Which document will the Office of the Superintendent of Financial Institutions (OSFI) issue?

- A. Insurer of record
- **B. Order of commencement**
- C. Insurer establishment document
- D. National insurance notice

Answer: B

Explanation:

To operate as a federally regulated insurance company in Canada, an insurer must receive authorization from OSFI after meeting all incorporation and capital requirements. Once OSFI is satisfied that the insurer has complied with statutory conditions, it issues an Order to Commence and Carry On Business—commonly referred to as an order of commencement. This document grants the insurer the legal authority to start underwriting and selling insurance in Canada.

Option A is not an official document under Canadian insurance regulation. Option C does not exist in federal insurance legislation.

Option D is incorrect because the establishment of an insurer is handled through incorporation documents, not a post-approval "establishment" certificate.

Therefore, the correct OSFI authorization document is B: Order of commencement.

NEW QUESTION # 92

What is the name of the pooling agreement where all high-risk drivers are underwritten in a common pool?

- A. Substandard Group
- B. Underwriters Association
- C. High-risk Drivers of Canada
- **D. Facility Association**

Answer: D

Explanation:

The Facility Association is the Canadian automobile insurance mechanism designed to ensure that high-risk drivers, who cannot obtain insurance in the voluntary market, are still able to secure the legally required automobile insurance coverage. All auto insurers in participating provinces must be members, and losses and premiums in the pool are shared among them according to market share. Option B, "Substandard Group," is not an official Canadian mechanism. Option C does not refer to any recognized underwriting pool for high-risk auto insurance. Option D is not an actual insurance entity.

Only the Facility Association accurately represents the mandatory pooling arrangement for high-risk drivers.

NEW QUESTION # 93

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