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C131

Study 1: Introduction to Commercial Insurance

Answer Key

Multiple-Choice Questions (2 marks each)

1. Which of the following are situations involved in the risk management process?
   a) Identifying and analyzing risk exposures
   b) Paying for risk exposures
   c) Appraising values of items exposed to risk
   d) Choosing speculative risks to insure

Rationale: The risk management process involves identifying and analyzing risk exposures; formulating options for dealing with each; selecting the best techniques for dealing with exposures; implementing the risk management plan; and monitoring the results and modifying the plan as necessary.

2. Quan is a risk manager who has been hired by Johnson Tire Company. Johnson is looking for ways to protect itself from severe losses that may affect the survivability of the company. Which of the following is the last step that Quan may take in the risk management process to help Johnson Tire Company?
   a) Identifying and analyzing risk exposures
   b) Implementing the risk management plan
   c) Monitoring the results and modifying the plan as necessary
   d) Selecting the best techniques for dealing with exposures

Rationale: The risk management process involves identifying and analyzing risk exposures; formulating options for dealing with each; selecting the best techniques for dealing with exposures; implementing the risk management plan; and monitoring the results and modifying the plan as necessary.

3. What is the expected goal when cold calling prospects?
   a) Receiving expiry dates
   b) Finding out the number of household members
   c) Advising the prospect of their insurance needs
   d) Asking for referrals

Rationale: The goal in cold calling is to collect information, such as the types of policies they purchase and the expiry dates.

4. How can an intermediary take care of an insured's additional needs?
   a) Cross-selling additional products
   b) Providing a letter of authorization
   c) Recommending a new brokerage/agency
   d) Advising the insured of the additional premiums they may be facing

Rationale: Cross-selling can be both selling insurance to new clients (friends or family members of existing clients) and rounding out the insurance plans of existing clients (selling them policies to cover other exposures).

5. Helena Harrison sets up an appointment with her applicant, Ali Aladine, to complete an inspection on a property that Ali would like to insure. Upon arrival at the premises, Helena can see a general lack of maintenance at the property. Overgrown bushes block the front entrance, the stair railing has come off the foundation and is hanging at an odd angle, and the front and side yards have not been mowed

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IIC C131 Exam Syllabus Topics:

Section	Weight	Objectives
Risk Management Principles	15%	- Developing Risk Management Plans - Analyzing Risk Exposures - Selecting Risk Management Techniques
Commercial Property Coverages	15%	- Business Interruption Insurance - Policy Wordings and Clauses
Insuring Manufacturers & Distributors	15%	
Monitoring and Modifying Risk Plans	5%	
Commercial Liability Coverages	15%	- Errors and Omissions - General Liability
Insuring Contractors & Construction Risks	15%	- Builders Risk Insurance - Contractors' Exposures
Specialty Lines: Auto, Crime, and Surety Bonds	10%	
Introduction to Commercial Insurance	10%	

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C131 Reliable Exam Pattern & C131 Reliable Dumps Questions

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IIC Advanced Skills for the Insurance Broker and Agent Sample Questions (Q77-Q82):

NEW QUESTION # 77
A broker is using their prior market knowledge to place a risk with an insurer who accepts luxury log cabins.
Which insurer aspect is the broker considering?

- A. Risk tolerance
- B. Risk appetite
- C. Risk management
- D. Risk avoidance

Answer: B

Explanation:
The correct answer is A. Risk appetite . Risk appetite refers to the types, classes, industries, occupancies, locations, values, and exposure characteristics an insurer is willing to write. In commercial insurance, not every insurer wants every type of risk. Some insurers prefer standard retail or office risks, while others specialize in unusual, higher-value, seasonal, remote, or hard-to-place accounts. A luxury log cabin can create special underwriting concerns, such as remote location, combustible construction, wildfire exposure, seasonal occupancy, high replacement cost, access limitations, and water-supply issues for firefighting. A broker who knows which insurer accepts luxury log cabins is using market knowledge of that insurer's appetite. Risk management refers to the client's process of identifying and controlling risk. Risk avoidance is a technique where the client eliminates an activity to avoid the exposure. Risk tolerance is the amount of risk an organization is prepared to retain or accept. The question is not about the client's tolerance or controls; it is about the insurer's willingness to write a specific class of business. Course topic reference: Introduction to Commercial Insurance; Broker Market Knowledge; Underwriting Appetite; Placing Commercial Risks
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NEW QUESTION # 78
Valuable information about the principals of a prospect's company, the products and services the company sells, and other financial data could be found by reviewing which source?

- A. The prospect's website
- B. The prospect's property appraisal
- C. Best's Underwriting Guide
- D. D & B reports

Answer: D

Explanation:
The correct answer is D. D & B reports . D & B, formerly Dun & Bradstreet, provides business information reports that can help a broker evaluate a commercial prospect before approaching markets or recommending an insurance program. These reports may include details about company principals, ownership, business activities, products and services, financial strength, credit history, payment trends, corporate structure, years in business, and sometimes public-record information. This is valuable because commercial insurance underwriting is not only about physical property values; it also considers management quality, financial stability, operational scope, and business reputation. A prospect's website can provide useful marketing and operational information, but it is controlled by the prospect and may not contain independent financial data.
Best's Underwriting Guide is used for underwriting guidance and classification information, not prospect- specific financial and ownership details. A property appraisal focuses on values and physical property, not principals or financial background. The strongest source for the combination of principals, products, services, and financial data is a D & B report. Course topic reference:

Analyzing Risk Exposures; Commercial Prospect Research; Financial Information; Business Background Reports .

NEW QUESTION # 79
Insurance premiums on automobile fleet policies are based on which factor?

- A. Driving record of the individual drivers
- B. Original purchase price of all vehicles in the fleet
- C. Overall experience of all drivers
- D. Mechanical condition of a vehicle from one particular fleet

Answer: C

Explanation:
The correct answer is A. Overall experience of all drivers . Fleet automobile insurance is rated differently from ordinary individual automobile insurance. In a personal or individually rated commercial auto policy, the insurer may focus heavily on the driving record of a specific driver, the vehicle's use, location, and vehicle characteristics. In a fleet policy, however, the underwriting approach looks at the entire group of vehicles and drivers as a collective exposure. The insurer is concerned with the overall claims experience, loss frequency, loss severity, driver controls, vehicle use, fleet size, safety procedures, maintenance practices, and management of the fleet as a whole. The individual driving records may still be reviewed as part of underwriting, but the premium basis is not simply the record of one driver. Likewise, original vehicle purchase price and the mechanical condition of one vehicle do not determine the fleet premium by themselves. The key underwriting logic is that a fleet produces a pattern of risk over time. Therefore, the insurer prices the policy according to the overall experience and performance of the entire fleet operation.
Course topic reference: Automobile, Crime, and Bonds; Commercial Automobile Insurance; Fleet Rating; Underwriting Factors .

NEW QUESTION # 80
A real estate investment trust is a long-term client of Best Brokerage. The REIT intends to tear down one unused warehouse and build an apartment in its place. The risk manager requests insurance coverage for the project, wants to avoid a significant increase in premium, and does not want to include cost overruns.
a) Briefly discuss how the limits of insurance of this project will be determined, and what type of costs are included in the limit.
b) Should the risk manager exclude cost overruns from the limit of insurance? Explain your answer.

Answer:

Explanation:
see the Explanation for Detailed Solution.
Explanation:
The insurance limit should be based on the full completed value of the apartment project, not the value of the old warehouse being demolished. Builders risk insurance must reflect the amount required to repair, replace, or complete the project if an insured loss occurs during construction. The limit should include hard construction costs such as demolition, site preparation, labour, materials, foundations, structural work, mechanical systems, electrical systems, plumbing, roofing, and finishing. It should also consider soft costs where applicable, including architectural fees, engineering fees, permits, legal fees, financing costs, inspection costs, and other professional or project-related expenses. Debris removal, temporary works, escalation, and delay-related costs may also need consideration depending on wording.
The risk manager should not exclude cost overruns simply to reduce premium. That is false economy.
Construction projects often exceed original budgets because of material inflation, labour shortages, design changes, delays, supply problems, or unexpected site conditions. If cost overruns are excluded from the insured limit, the REIT may face underinsurance after a serious loss and may have to fund the shortfall itself.
The broker should recommend a realistic limit that includes an allowance for escalation or cost overruns.
Course topic reference: Builders Risk; Property Coverages; Project Limits; Soft Costs; Cost Overruns; Construction Insurance .

NEW QUESTION # 81
In the absence of specific expertise in construction, which party will generally arrange a wrap-up liability policy?

- A. General contractor
- B. Party in control of the land
- C. Party in control of the project
- D. Subcontractor

Answer: C

Explanation:
The correct answer is D. Party in control of the project . A wrap-up liability policy is commonly arranged for construction projects where several parties are involved, such as owners, general contractors, subcontractors, consultants, and sometimes project managers. The purpose is to provide a coordinated liability program for the project rather than relying only on separate liability policies carried by each participant.
When no special construction expertise dictates otherwise, the party in control of the project is usually best positioned to arrange the wrap-up because that party can define the project scope, identify participants, determine required limits, coordinate certificates, and ensure the policy applies throughout the construction period. A general contractor may arrange the policy in some projects, especially if it controls the work, but the broader and more technically correct answer is the party controlling the project. A subcontractor would not normally arrange a project-wide wrap-up because their role is limited to a portion of the work. The party controlling only the land may not control construction operations. Course topic reference: Builders Risk; Contractors; Wrap-Up Liability; Project-Controlled Insurance Programs; Construction Risk Financing
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NEW QUESTION # 82
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