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CIP Program Examination

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Sample Exam

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.

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IIC Principles and Practice of Insurance Sample Questions (Q37-Q42):

NEW QUESTION # 37

[Insurance Companies - Reinsurance (Non-Proportional / Excess of Loss)] Cover It Insurance has a non-proportional reinsurance agreement with ZYX-Reinsurance:

\$600,000 excess of \$300,000.

Which payout is accurate?

- A. On a \$100,000 loss, Cover It pays \$33,333 and ZYX pays \$66,667
- B. On a \$900,000 loss, Cover It pays \$200,000 and ZYX pays \$600,000
- C. On a \$200,000 loss, Cover It pays \$100,000 and ZYX pays \$100,000
- **D. On a \$600,000 loss, Cover It pays \$300,000 and ZYX pays \$300,000**

Answer: D

Explanation:

In a non-proportional excess of loss contract, the reinsurer pays only the amount above the retention (the deductible), up to its limit.

Retention = \$300,000

Reinsurer's limit = \$600,000

Maximum reinsurance payout = \$600,000

Now apply it to a \$600,000 loss:

Cover It Insurance pays the first \$300,000 (its retention).

The remaining \$300,000 is within the reinsurer's limit, so ZYX-Reinsurance pays \$300,000.

Option A is incorrect—loss does not exceed retention, so reinsurer pays nothing.

Option B is incorrect—no reinsurance applies below \$300,000.

Option D is incorrect because for a \$900,000 loss, reinsurer would pay the maximum limit of \$600,000, but Cover It would pay \$300,000 retention plus the remaining \$0? Actually total loss 900k: cover it pays 300k retention + 0 above? No, Cover It also pays any amount above reinsurance layer → 900k minus 300k retention minus 600k limit = 0. The answer shown is still incorrect based on the numbers.

Only C is correctly calculated.

NEW QUESTION # 38

Which statement best describes a valued contract?

- A. Settlements involve periodic payments due to the nature of valuation
- B. The policy pays the full cost of replacing items even if this amount exceeds policy limits
- C. The insured can reject settlement offers and force a higher payout
- **D. Settlements are based on a predetermined amount agreed upon at contract formation**

Answer: D

Explanation:

A valued contract is one in which the insurer and insured agree in advance on the value of the insured item. If a total loss occurs, the insurer pays this predetermined amount, regardless of the item's actual cash value at the time of loss. This type of contract is common in areas such as fine arts, antiques, life insurance, or items whose value is difficult to measure after loss. The purpose is to eliminate disputes over valuation after a loss occurs.

Option A incorrectly describes replacement cost coverage.

Option B misstates contract rights; insureds cannot force payouts beyond contractual terms.

Option C describes structured settlements, not valued contracts.

Thus, the correct definition is D.

NEW QUESTION # 39

How are staff adjusters and independent adjusters similar?

- A. Neither has any limitation on their authority to settle claims
- **B. Both work on behalf of, and are paid by, the insurer**
- C. Both are licensed only in Quebec and New Brunswick
- D. Neither is allowed to perform an investigation

Answer: B

Explanation:

This question is identical to Question 25, so the correct answer and reasoning are the same. Whether an adjuster is a staff employee or an independent contractor, they are hired to represent the insurer in the claims process. They are both compensated by the insurer.

staff adjusters through salary and benefits, independent adjusters through fees or billing arrangements. Both must meet licensing requirements established by provincial regulatory bodies, conduct investigations, and report their findings to the insurer. They are also both subject to authority limits on claim settlement.

Thus, the only option that correctly reflects their similarity is B: both serve and are paid by insurers.

NEW QUESTION # 40

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

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

Answer: C

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 # 41

Antonio lights a firecracker and throws it to Brett. Brett tosses it to Sandra. Sandra catches it and throws it to Celina. It explodes in Celina's hands, injuring her. Who is the immediate cause of the loss?

- A. Antonio and Brett
- B. Sandra
- C. Celina and Antonio
- D. Brett

Answer: B

Explanation:

In determining liability, the immediate (proximate) cause refers to the most direct, unbroken cause leading to the injury. In this sequence, the firecracker explodes in Celina's hands immediately after she receives it from Sandra. Although Antonio initiated the chain of events and Brett contributed, their actions are more remote.

The last voluntary act that directly placed the dangerous object in the position where it caused harm was Sandra's throw to Celina. Sandra's action is therefore the immediate cause, even though earlier individuals may share legal responsibility in a broader causation analysis.

Option D is incorrect because Celina did not cause her own injury; she merely received the firecracker.

Option C includes Antonio and Brett, but neither was the final actor in the chain.

Therefore, the immediate cause of loss is B: Sandra.

NEW QUESTION # 42

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