

Highly-Praised Principles and Practice of Insurance Qualification Question Helps You Pass the Principles and Practice of Insurance Exam Easily

FUNDAMENTALS OF INSURANCE - PRACTICE EXAM 2 (2023-2024) ALL 100 QUESTIONS WITH CORRECT VERIFIED ANSWERS/PASS ASSURED

- 1) Your client has made application for "appraisal". The intent of the appraisal process is to settle the dispute between your client and the insurer regarding
 - a. Amount of the settlement being offered
 - b. Denial of insurance coverage under the policy
 - c. Right of the insured to purchase the salvage after an insured loss
 - d. Premium charged to coverages being provided by the insurer
- 2) An indifferent attitude towards losses because of the presence of insurance indicates the presence of
 - a. Gross negligence
 - b. Physical hazard
 - c. A material change
 - d. A moral hazard
- 3) Insurable interest means the
 - a. Interest gained on money in a bank
 - b. Interest payable on a loan
 - c. Personal interest people have in something they expect to inherit
 - d. Financial interest a person has in something of value
- 4) Every policy of "fire" insurance
 - a. Usually covers fire, smoke, and specified types of explosions
 - b. Is required by law to cover fire, windstorm and lightning
 - c. Covers fire, explosion and windstorm
 - d. Is required by law to cover at least fire, lightning, and specified types of explosions
- 5) Your client's insurance policy was cancelled for non-payment of premium. 6 days after the notice of termination was mailed, your client had a loss
 - a. The loss would not be covered because no premiums had been paid
 - b. The mailing of the notice automatically cancels the policy after 5 days
 - c. The loss is covered because 15 days' notice must be given by registered mail
 - d. The loss would be covered but only in proportion to the time the policy was in effect
- 6) Under a policy of "fire" insurance, the insurer must make payment for a loss within
 - a. 75 days after completion of the proof of loss

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IIC Principles and Practice of Insurance Sample Questions (Q34-Q39):

NEW QUESTION # 34

Ivana is in an auto accident. The agreed market value of her vehicle is \$17,000.

Her policy deductible is \$1,500.

A wrecking company offers \$3,000 for the salvage.

Ivana chooses to keep the salvage.

What amount will Ivana receive?

- A. \$12,500
- B. \$17,000
- C. \$15,500
- D. \$14,000

Answer: A

Explanation:

Comprehensive Explanation (150-250 words):

When a vehicle is deemed a total loss, the insurer typically pays the actual cash value (ACV) minus the deductible. If the insured decides to keep the salvage, the salvage value must also be deducted from the settlement, because the insured retains something of monetary worth.

The formula for this situation is:

$$\text{Settlement} = \text{ACV} - \text{Deductible} - \text{Salvage Value}$$

Using Ivana's numbers:

ACV = \$17,000

Deductible = \$1,500

Salvage value = \$3,000

$17,000 - 1,500 - 3,000 = 12,500$ Therefore, Ivana receives \$12,500, and she keeps the damaged vehicle, which she values for personal reasons.

Option B (\$14,000) ignores the salvage deduction.

Option C (\$15,500) ignores the deductible.

Option D (\$17,000) ignores both deductible and salvage, which is not permitted.

The only correct settlement amount is \$12,500.

NEW QUESTION # 35

A company suffers an \$80,000 theft loss from its commercial property.

Insurer A covers the property for \$300,000.

Insurer B covers the same property for \$100,000.

Assuming both policies have identical terms, how is the \$80,000 loss shared?

- A. Insurer A pays \$80,000; Insurer B pays \$0
- B. Insurer A pays \$60,000; Insurer B pays \$20,000
- C. Insurer A pays \$40,000; Insurer B pays \$40,000
- D. Insurer A pays \$0; Insurer B pays \$60,000

Answer: B

Explanation:

When two insurers cover the same property, the principle of contribution applies. Each insurer pays a proportion of the loss based on its share of the total insurance in force. Here:

Total insurance = \$300,000 + \$100,000 = \$400,000

Insurer A's share = $300,000 / 400,000 = 75\%$

Insurer B's share = $100,000 / 400,000 = 25\%$

Loss = \$80,000

Insurer A pays $75\% \times 80,000 = \$60,000$

Insurer B pays $25\% \times 80,000 = \$20,000$
Thus, C is correct.

NEW QUESTION # 36

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

Answer: A

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 # 37

Which principle of insurance requires that an insured must have a financial interest in the subject matter of insurance at the time of loss?

- A. Utmost good faith
- B. Indemnity
- C. Insurable interest
- D. Subrogation

Answer: C

Explanation:

Comprehensive and Detailed Explanation:

The principle of insurable interest is fundamental to insurance contracts and is essential for the validity of an insurance policy.

Insurable interest exists when the insured stands to suffer a financial loss if the insured property is damaged, destroyed, or if the insured person is injured or dies. This principle ensures that insurance contracts are not used for speculation or gambling, which would be contrary to the purpose of insurance.

According to established insurance principles reflected in the Insurance Institute of Canada's Principles and Practice of Insurance, insurable interest must exist at the time of loss for property and liability insurance. For life insurance, insurable interest must exist at the time the policy is taken out. Without insurable interest, an insured would have no legitimate reason to purchase insurance, and the policy could be declared void.

For example, a homeowner has an insurable interest in their house because they would suffer a financial loss if it were damaged by fire. Similarly, a business has an insurable interest in its inventory and equipment. In contrast, a person cannot insure a stranger's property because they would not experience a financial loss if that property were damaged.

This principle protects insurers from moral hazard and ensures that insurance remains a mechanism for risk transfer and financial protection, rather than a means of profit. Therefore, the correct answer is B. Insurable interest.

NEW QUESTION # 38

A commercial brokerage failed to advise the insurer of a client's modified risk. The insurer discovered this only at the time of a major loss and denied the claim due to material change. How will the client MOST LIKELY proceed?

- A. Take legal action against the insurer, stating the insurer knew the full risk

- B. Pay for the loss, and oblige the brokerage to reimburse the deductible
- C. Pay for the loss, and cancel the policy backdated to before the loss
- D. Take legal action against the brokerage, stating it had a contractual responsibility to disclose the material change

Answer: D

Explanation:

Brokers act as agents of the insured, meaning they owe a professional duty to advise the insurer of any material change in risk. A material change is any alteration that significantly affects the underwriting assessment of the policy. If a broker fails to report such a change, the insurer is legally entitled to void coverage or deny a claim because it was not given full information to properly rate or accept the risk.

When a claim is denied due to the broker's failure-not the insured's intentional nondisclosure-the insured will typically seek compensation by suing the brokerage for negligence. The brokerage has a legal duty of care to ensure proper communication with insurers on behalf of the client.

Options A and B make no sense because the insurer will not voluntarily pay after a justified denial. Option C is unlikely, because the insurer can demonstrate that it never received notification of the change. The correct and realistic recourse is legal action against the brokerage, making D correct.

NEW QUESTION # 39

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