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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: Ⓐ Ⓑ Ⓒ Ⓓ

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 (Q46-Q51):

#### NEW QUESTION # 46

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

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

**Answer: D**

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 # 47

Orianna is an insurance professional who acts on behalf of the insurer and the insured. She owns her client list and is paid commission once policies are arranged. What is her profession?

- A. Exclusive agent
- **B. Broker**
- C. Independent adjuster
- D. Underwriter

**Answer: B**

Explanation:

A broker is an independent insurance intermediary who represents the insured, not the insurer, yet also interacts professionally with insurers to place coverage. Brokers typically own their client lists, have the freedom to place business with multiple insurers, and earn income through commissions once policies are sold or renewed.

They are obligated to provide impartial advice and ensure clients receive suitable coverage.

Underwriters (option B) do not own client lists and do not earn commissions; they work for insurers evaluating risks. Exclusive agents (option C) represent one insurer only and generally do not own their book of business. Independent adjusters (option D) investigate and adjust claims—they do not sell insurance nor hold client lists.

Orianna's described attributes—ownership of clients, acting for both parties, and earning commissions—match precisely the role of a broker, making A correct.

#### NEW QUESTION # 48

Kamal's home has an actual cash value (ACV) of \$380,000 and is insured for \$400,000. The house suffers \$180,000 damage. Which amount indemnifies Kamal?

- **A. \$180,000**
- B. \$200,000
- C. \$380,000
- D. \$400,000

**Answer: A**

Explanation:

Indemnity means restoring the insured to the financial position they occupied immediately before the loss—no better, no worse. Since the loss amount is \$180,000, this is the amount required to fully indemnify the insured.

Although the policy limit is \$400,000, the insurer does not pay policy limits unless the loss equals or exceeds the limit. The ACV of \$380,000 is irrelevant here because the loss is partial, not total. ACV only caps reimbursement in cases of total loss or when

replacement cost is not available.  
Option B (\$200,000) has no basis in any indemnity or co-insurance formula.  
Options C and D refer to total loss payouts, not applicable here.  
Thus, the amount that indemnifies Kamal is A: \$180,000.

#### NEW QUESTION # 49

What does the term "subject of insurance" refer to?

- A. The company providing the coverage
- B. The perils associated with the risk
- C. The type of wording applicable to the policy
- **D. The thing being insured**

**Answer: D**

Explanation:

The subject of insurance is the property, person, or legal liability exposure that is being insured. This is the central object of the policy—what the insurer agrees to indemnify or protect. For example, a house in a homeowner's policy, a vehicle in an automobile policy, or a person's life in a life insurance contract.

Identifying the subject of insurance is essential because underwriting, policy wordings, rates, and coverage conditions all revolve around what is being insured.

Option B refers to perils, which are the causes of loss, not the insured item. Option C refers to the insurer itself and is unrelated to the definition. Option D refers to policy language but not the underlying exposure.

Thus, the correct meaning of the term is A: the thing being insured.

#### NEW QUESTION # 50

Which type of clause grants additional protection to the entity that has a registered interest on real property?

- A. Bailee clause
- B. Additional Interest clause
- C. Lienholder clause
- **D. Mortgage clause**

**Answer: D**

Explanation:

A mortgage clause is specifically designed to protect the financial institution (the mortgagee) that holds a registered interest in real property. Under this clause, the mortgagee receives certain rights independent of the insured. For example, even if the insured voids the policy through misrepresentation, material change, or failure to comply with policy conditions, the mortgagee may still retain coverage so long as they meet their obligations, such as paying premiums or notifying the insurer of increased hazards.

A bailee clause relates to goods in the custody of another party, not real property. A lienholder clause may apply to movable property like vehicles but does not grant the same broad, independent protection provided to mortgagees. An additional interest clause merely notifies the insurer of a party's interest but does not extend full rights. Therefore, the clause that ensures robust contractual protection to an entity with a registered interest in real property is the mortgage clause.

#### NEW QUESTION # 51

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