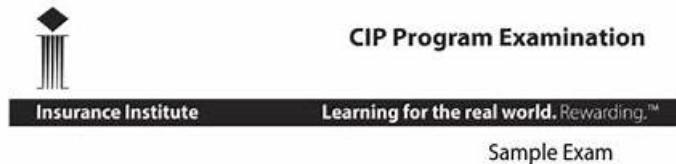


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C11 Principles and Practice of Insurance

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 (Q96-Q101):

NEW QUESTION # 96

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

Answer: C

Explanation:

In an 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 # 97

Ace Brokerage Inc., a liability insurer, has been in business for three years. It is suffering financial difficulties despite writing a significant amount of new business. What is the most likely reason?

- A. Premiums were discounted when policyholders paid in full
- **B. Poor handling of its accounts receivable**
- C. Lack of profit-sharing commissions earned
- D. Many clients have added endorsements to their policies

Answer: B

Explanation:

For a new insurer, cash flow and premium collection are critical. Liability claims often take years to develop, but expenses such as commissions, reinsurance, administration, and claim reserves must be funded immediately. If premiums are not collected promptly due to poor management of accounts receivable, the insurer may not have sufficient liquidity to meet obligations - even if it has written a large volume of business on paper.

Option B is irrelevant because insurers (unlike brokers) do not receive profit-sharing commissions.

Option C is not typically a cause of financial distress since endorsements generate additional premium.

Option D - discounting premiums - could affect income but would not normally create severe financial difficulty unless combined with other poor practices.

The most likely reason for early-stage financial trouble is failure to collect premiums efficiently, making A correct.

NEW QUESTION # 98

What is the correct placement of statutory conditions to their respective insurance policy?

□

- A. A: automobile, B: accident & sickness, C: fire
- **B. A: accident & sickness, B: fire, C: automobile**

- C. A: fire, B: accident & sickness, C: automobile
- D. A: accident & sickness, B: automobile, C: fire

Answer: C

Explanation:

In Canadian insurance law, statutory conditions apply differently depending on the class of insurance:

Fire insurance policies contain Statutory Conditions under provincial Insurance Acts.

Accident & sickness policies contain Statutory Conditions specific to health and travel insurance.

Automobile insurance includes Statutory Conditions or General Conditions (depending on the province).

The table shown in your image lists headings:

A: Rights of examination, B: Action, C: Prohibited use by insured.

These correspond directly to statutory condition categories found in fire insurance and accident & sickness insurance, not automobile.

The correct ordering is:

A = Fire, B = Accident & Sickness, C = Automobile.

This matches option B.

NEW QUESTION # 99

Rashida claims she told her broker about the swimming pool when binding coverage. The adjuster disputes coverage because the insurer was not informed. What should have been done to prevent this dispute?

- A. Insurer should have contacted Rashida directly before binding coverage
- B. Broker should have sent written confirmation to Rashida and the insurer
- C. Broker should have requested a witness during the oral application
- D. Broker should have requested Rashida send in a signed notice after issuance

Answer: B

Explanation:

Whenever coverage is bound orally, the broker must follow up with written confirmation to both: the insured, to confirm the accuracy of information provided, and the insurer, to notify them of all disclosed underwriting details.

This written documentation protects all parties by ensuring the insurer is fully aware of material facts—such as the presence of a swimming pool—and prevents disputes like this one.

Option A is unnecessary and not industry practice.

Option C refers to a notice after issuance, but the dispute occurred at binding, so this is too late.

Option D is incorrect; the insurer does not verify every detail directly with insureds—this is the broker's responsibility.

Thus, the broker should have completed written confirmation, making B the correct answer.

NEW QUESTION # 100

Patrice works as a broker meeting a new client. He is building rapport by performing similar actions to those of his client. Which form of in-person communication is he engaging in?

- A. Copycatting
- B. Transparency
- C. Open listening
- D. Mirroring

Answer: D

Explanation:

Mirroring is a communication technique used to build rapport by subtly matching another person's body language, tone, gestures, or pace of speech. It is widely used in sales, client consultations, and negotiations.

When done professionally and subtly, mirroring helps clients feel understood and creates psychological comfort, making it easier to discuss needs and gather accurate underwriting information.

Option B, copycatting, implies obvious or exaggerated imitation and is not a recognized professional communication method. Option C, transparency, refers to openness and honesty, not physical or behavioural alignment. Option D, open listening, is active listening—important, but unrelated to mirroring physical actions.

Since Patrice is deliberately performing similar actions to his client, he is engaging in mirroring, making A the correct answer.

NEW QUESTION # 101

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