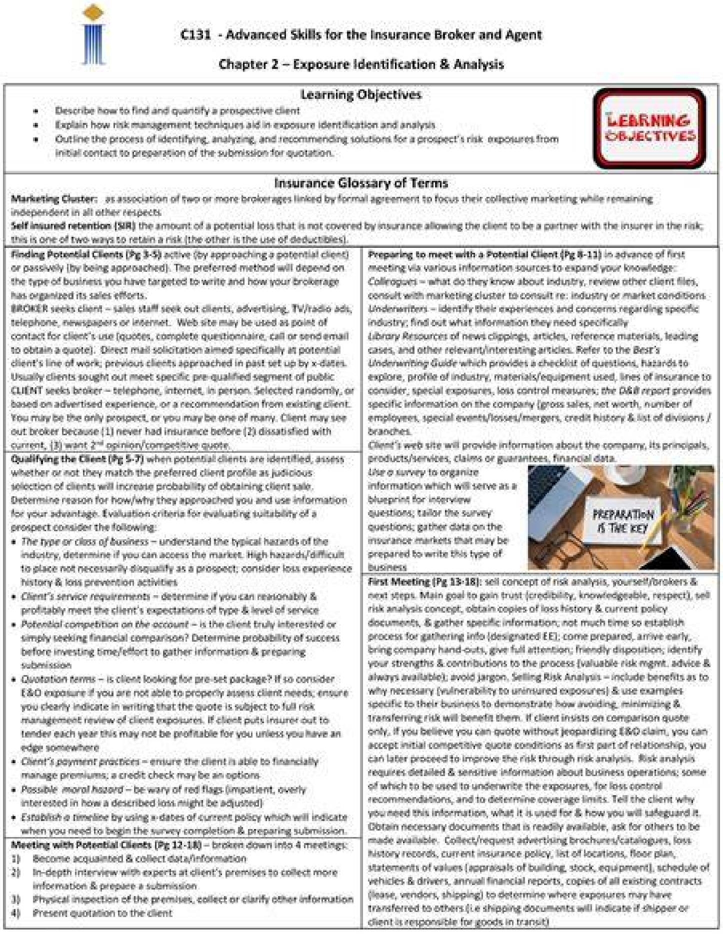
# Professional IIC - C131 - Valid Test Advanced Skills for the Insurance Broker and Agent Bootcamp



C131 - Advanced Skills for the Insurance Broker and Agent

Chapter 2 – Exposure Identification & Analysis

**Learning Objectives**

- Describe how to find and quantify a prospective client
- Explain how risk management techniques aid in exposure identification and analysis
- Outline the process of identifying, analyzing, and recommending solutions for a prospect's risk exposures from initial contact to preparation of the submission for quotation.

LEARNING OBJECTIVES

**Insurance Glossary of Terms**

**Marketing Cluster:** as association of two or more brokerages linked by formal agreement to focus their collective marketing while remaining independent in all other respects

**Self insured retention (SIR)** the amount of a potential loss that is not covered by insurance allowing the client to be a partner with the insurer in the risk; this is one of two ways to retain a risk (the other is the use of deductibles).

**Finding Potential Clients (Pg 3-5)** active (by approaching a potential client) or passively (by being approached). The preferred method will depend on the type of business you have targeted to write and how your brokerage has organized its sales efforts.

BROKER seeks client – sales staff seek out clients, advertising, TV/radio ads, telephone, newspapers or internet. Web site may be used as point of contact for client's use (quotes, complete questionnaire, call or send email to obtain a quote). Direct mail solicitation aimed specifically at potential client's line of work; previous clients approached in past set up by x-dates. Usually clients sought out meet specific pre-qualified segment of public

CLIENT seeks broker – telephone, internet, in person. Selected randomly, or based on advertised experience, or a recommendation from existing client. You may be the only prospect, or you may be one of many. Client may see out broker because (1) never had insurance before (2) dissatisfied with current, (3) want 2nd opinion/competitive quote.

**Qualifying the Client (Pg 5-7)** when potential clients are identified, assess whether or not they match the preferred client profile as judicious selection of clients will increase probability of obtaining client sale. Determine reason for how/why they approached you and use information for your advantage. Evaluation criteria for evaluating suitability of a prospect consider the following:

- *The type or class of business* – understand the typical hazards of the industry, determine if you can access the market. High hazards/difficult to place not necessarily disqualify as a prospect; consider loss experience history & loss prevention activities
- *Client's service requirements* – determine if you can reasonably & profitably meet the client's expectations of type & level of service
- *Potential competition on the account* – is the client truly interested or simply seeking financial comparison? Determine probability of success before investing time/effort to gather information & preparing submission
- *Quotation terms* – is client looking for pre-set package? If so consider E&O exposure if you are not able to properly assess client needs; ensure you clearly indicate in writing that the quote is subject to full risk management review of client exposures. If client puts insurer out to tender each year this may not be profitable for you unless you have an edge somewhere
- *Client's payment practices* – ensure the client is able to financially manage premiums; a credit check may be an options
- *Possible moral hazard* – be wary of red flags (impatient, overly interested in how a described loss might be adjusted)
- *Establish a timeline* by using x-dates of current policy which will indicate when you need to begin the survey completion & preparing submission.

**Meeting with Potential Clients (Pg 12-18)** – broken down into 4 meetings:

1) Become acquainted & collect data/information
2) In-depth interview with experts at client's premises to collect more information & prepare a submission
3) Physical inspection of the premises, collect or clarify other information
4) Present quotation to the client

**Preparing to meet with a Potential Client (Pg 8-11)** in advance of first meeting via various information sources to expand your knowledge:

*Colleagues* – what do they know about industry, review other client files, consult with marketing cluster to consult re: industry or market conditions

*Underwriters* – identify their experiences and concerns regarding specific industry; find out what information they need specifically

*Library Resources* of news clippings, articles, reference materials, leading cases, and other relevant/interesting articles. Refer to the *Best's Underwriting Guide* which provides a checklist of questions, hazards to explore, profile of industry, materials/equipment used, lines of insurance to consider, special exposures, loss control measures; *the D&B report* provides specific information on the company (gross sales, net worth, number of employees, special events/losses/mergers, credit history & list of divisions / branches.

*Client's* web site will provide information about the company, its principals, products/services, claims or guarantees, financial data.

*Use a survey* to organize information which will serve as a blueprint for interview questions; tailor the survey questions; gather data on the insurance markets that may be prepared to write this type of business

PREPARATION IS THE KEY

**First Meeting (Pg 13-18)**: sell concept of risk analysis, yourself/brokers & next steps. Main goal to gain trust (credibility, knowledgeable, respect), sell risk analysis concept, obtain copies of loss history & current policy documents, & gather specific information; not much time so establish process for gathering info (designated EE); come prepared, arrive early, bring company hand-outs, give full attention; friendly disposition; identify your strengths & contributions to the process (valuable risk mgmt. advice & always available); avoid jargon. Selling Risk Analysis – include benefits as to why necessary (vulnerability to uninsured exposures) & use examples specific to their business to demonstrate how avoiding, minimizing & transferring risk will benefit them. If client insists on comparison quote only, if you believe you can quote without jeopardizing E&O claim, you can accept initial competitive quote conditions as first part of relationship, you can later proceed to improve the risk through risk analysis. Risk analysis requires detailed & sensitive information about business operations; some of which to be used to underwrite the exposures, for loss control recommendations, and to determine coverage limits. Tell the client why you need this information, what it is used for & how you will safeguard it. Obtain necessary documents that is readily available, ask for others to be made available. Collect/request advertising brochures/catalogues, loss history records, current insurance policy, list of locations, floor plan, statements of values (appraisals of building, stock, equipment), schedule of vehicles & drivers, annual financial reports, copies of all existing contracts (lease, vendors, shipping) to determine where exposures may have transferred to others (i.e shipping documents will indicate if shipper or client is responsible for goods in transit)

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## IIC C131 Exam Syllabus Topics:

| Section | Weight | Objectives |
|---|---|---|
| Topic 1: Monitoring and Modifying Risk Plans | 5% | |
| Topic 2: Insuring Manufacturers & Distributors | 15% | |
| Topic 3: Commercial Property Coverages | 15% | - Business Interruption Insurance<br>- Policy Wordings and Clauses |
| Topic 4: Commercial Liability Coverages | 15% | - Errors and Omissions<br>- General Liability |
| Topic 5: Insuring Contractors & Construction Risks | 15% | - Contractors' Exposures<br>- Builders Risk Insurance |
| Topic 6: Risk Management Principles | 15% | - Analyzing Risk Exposures<br>- Developing Risk Management Plans<br>- Selecting Risk Management Techniques |
| Topic 7: Specialty Lines: Auto, Crime, and Surety Bonds | 10% | |
| Topic 8: Introduction to Commercial Insurance | 10% | |

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# IIC Advanced Skills for the Insurance Broker and Agent Sample Questions (Q46-Q51):

**NEW QUESTION # 46**
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 # 47**
An architect is sued by a client for having failed to account for local bylaws when designing a new home. For the insurance company to defend the architect, which coverage must he have in place?

- A. Errors and omissions
- B. Commercial building, equipment, and stock
- C. Explosion, collapse, and underpinning
- D. Wrap-up liability

**Answer: A**

Explanation:
The correct answer is B. Errors and omissions . Architects provide professional services based on specialized knowledge, design skill, technical standards, and regulatory awareness. If an architect fails to account for local bylaws when designing a home, the client may allege professional negligence, error, omission, or failure to meet the expected professional standard of care. Commercial general liability policies usually focus on bodily injury and property damage, not purely professional design errors. Errors and omissions insurance, also called professional liability insurance, is designed to defend and indemnify professionals against claims arising from negligent acts, errors, or omissions in the performance of professional services. Wrap-up liability is project liability coverage for construction participants, but it does not replace the architect's professional liability policy. Explosion, collapse, and underpinning coverage relates to construction hazards, not design negligence. Commercial building, equipment, and stock coverage

is first- party property insurance and would not defend the architect against a client's lawsuit. Architects must maintain E & O coverage because design mistakes can cause financial loss, construction defects, delay, redesign costs, and litigation. Course topic reference: Liability; Professional Liability; Errors and Omissions; Architects and Design Professionals .

**NEW QUESTION # 48**
What type of property would be covered by mercantile stock burglary coverage under a crime insurance policy?

- A. Securities
- B. Cheques
- C. Furniture
- D. Paper currency

**Answer: C**

Explanation:
The correct answer is A. Furniture . Mercantile stock burglary coverage is a crime coverage designed to insure certain business property against burglary. It generally applies to stock, equipment, fixtures, and similar tangible commercial property located at the insured premises, subject to policy wording. Furniture falls within the type of physical business property that may be insured under this coverage. The other options are deliberately different because cheques, securities, and paper currency are forms of money or financial instruments. These are normally handled under separate crime coverages such as money and securities, inside /outside robbery, safe burglary, employee dishonesty, forgery, or securities coverage, depending on the form.
Mercantile stock burglary is not intended to be a broad money coverage. The broker must distinguish between burglary of stock or business contents and theft of money or securities because using the wrong coverage form can leave a client uninsured. In practical terms, a store's furniture or stock may fall under mercantile burglary, while cash, cheques, and securities require separate crime protection. Course topic reference:
Automobile, Crime, and Bonds; Crime Insurance; Mercantile Stock Burglary; Money and Securities Exclusions .

**NEW QUESTION # 49**
Angie is frustrated with her insurer as she recently had a mysterious disappearance claim that was denied under her commercial property policy. Why was Angie likely denied her claim?

- A. She had a similar claim in a previous policy term
- B. She had chosen named perils coverage
- C. Her policy had not earned sufficient premium at the time of the loss
- D. Her appraisal was only received in the last three months

**Answer: B**

Explanation:
The correct answer is A. She had chosen named perils coverage . Named perils coverage only responds when the loss is caused by a peril specifically listed in the policy. If the cause of loss cannot be shown to fall within one of those named perils, the claim will usually fail. Mysterious disappearance is difficult because the insured may know property is missing but cannot prove theft, burglary, fire, or another insured peril. Under a broad or all-risks form, unexplained disappearance may still be limited or excluded depending on wording, but under named perils coverage the problem is even more direct: the insured must prove the loss was caused by an insured peril. A previous similar claim may affect underwriting attitude, but it does not automatically deny a current valid claim. An appraisal timing issue is not the reason for denial unless policy conditions specifically make it relevant. Unearned premium is not a normal basis to deny a claim when the policy is in force. The broker should explain that cheaper named perils coverage provides narrower protection and requires stronger proof of cause. Course topic reference: Property Coverages; Named Perils; Mysterious Disappearance; Proof of Loss; Coverage Limitations .

**NEW QUESTION # 50**
Which clause is a refusal to accept liability for damages that might occur?

- A. Indemnity provision
- B. Disclaimer
- C. Risk retainer
- D. Hold harmless agreement

**Answer: B**

Explanation:
The correct answer is A. Disclaimer . A disclaimer is a statement or clause by which a party refuses, limits, or denies responsibility for certain losses, damages, representations, or outcomes. In commercial insurance and risk management, disclaimers are often used in contracts, websites, proposals, reports, signage, warranties, and service agreements to clarify that one party does not accept liability for specific events or consequences. A disclaimer does not automatically eliminate all legal liability, because courts may examine fairness, wording, notice, statutory obligations, and public policy. However, its purpose is still to refuse or restrict liability. An indemnity provision is different: it requires one party to compensate another for certain losses. A hold harmless agreement is also a contractual risk transfer clause where one party agrees not to hold another responsible or agrees to protect them from claims. "Risk retainer" is not the correct contractual clause; retention means keeping the financial consequence of risk rather than transferring it. The wording
"refusal to accept liability" directly points to a disclaimer. Course topic reference: Risk Management; Selecting Risk Techniques; Contractual Risk Transfer; Disclaimers and Liability Clauses .

**NEW QUESTION # 51**
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