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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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## Practice Test C11 Fee - Valid C11 Exam Objectives

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## IIC Principles and Practice of Insurance Sample Questions (Q17-Q22):

NEW QUESTION # 17

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

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

**Answer: A**

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 # 18

An insurer writes a \$60,000,000 risk for a premium of \$30,000. Using pro rata reinsurance, it transfers 25% of the risk to the reinsurer. The risk then suffers a \$100,000 loss. How much does the reinsurer contribute to this loss?

- A. \$75,000
- B. \$60,000
- C. \$25,000
- D. \$100,000

**Answer: C**

Explanation:

In pro rata (proportional) reinsurance, the reinsurer assumes a fixed percentage of both the risk and the premium, and in return pays the same percentage of any losses. Here, the insurer cedes 25% of the risk to the reinsurer. Therefore, the reinsurer must contribute 25% of any loss that occurs on that policy.

The loss amount is \$100,000.

Reinsurer's share =  $25\% \times \$100,000 = \$25,000$ .

The insurer retains the remaining 75%, or \$75,000. Proportional reinsurance helps insurers manage exposure by sharing both costs and losses. Options B, C, and D do not correctly reflect proportional-sharing principles.

The reinsurer does not pay the full loss; it only pays its agreed percentage.

Thus, the correct answer is A: \$25,000.

### NEW QUESTION # 19

What is the definition of subrogation?

- A. The right of the insurer to take action against the insured in cases of fraud
- B. A promise by one party to release another from responsibility in exchange for money
- C. The process allowing an insurer that paid a claim to recover the amount from the legally responsible party
- D. The full payout an insurer makes before receiving the deductible

**Answer: C**

Explanation:

Subrogation allows an insurer that has indemnified an insured to pursue recovery from the party legally responsible for the loss. It prevents the insured from collecting twice and shifts the financial burden back to the negligent third party. Subrogation is a fundamental principle tied to indemnity.

Option A describes insurer action in fraud cases—not subrogation.

Option B is incorrect; deductibles are always retained by the insured, not reimbursed later.

Option C describes a release or waiver, not subrogation.

Thus, the correct definition is D.

### NEW QUESTION # 20

Which is NOT one of the three types of knowledge an underwriter requires to be successful in their role?

- A. Insurance product knowledge
- B. Industry knowledge
- C. Prescription knowledge
- D. Claims knowledge

**Answer: C**

Explanation:

Successful underwriters must blend several types of knowledge to properly assess risk and construct suitable terms. The core areas typically highlighted in insurance education are:

Insurance product knowledge - Understanding policy wordings, coverages, exclusions, conditions, endorsements, and how different products respond to various loss scenarios.

Industry knowledge - Knowing the industries they insure (e.g., construction, retail, manufacturing): operational hazards, typical loss trends, regulatory environment, and risk-management practices.

Claims knowledge - Appreciating how losses actually occur, how claims are adjusted, common coverage disputes, and historical loss experience. This helps underwriters anticipate problem areas and price and structure coverage appropriately.

"Prescription knowledge" is not a standard category in underwriting education. While underwriters may need guidelines, manuals, and rules, this is not recognized as one of the three foundational knowledge types.

Therefore, the item that is NOT one of the three required knowledge types is A. Prescription knowledge.

### NEW QUESTION # 21

What should the broker provide in the broker report?

- A. The client's past premium and deductibles
- B. Any personal knowledge of the client
- C. Comparable accounts to assist the insurer in rating
- D. Their suggested premium for the client

**Answer: B**

Explanation:

A broker report accompanies an application submitted to an insurer. Its purpose is to give the underwriter helpful background information to properly assess the risk. The broker is expected to provide personal knowledge of the client that may not be evident from the application itself, such as reputation, financial responsibility, prior behaviour, and risk-management practices. This information can significantly influence underwriting decisions.

Option A is incorrect-the insurer, not the broker, determines premium.

Option C may be included if relevant, but it is not the essential purpose of a broker report.

Option D (comparable accounts) is not standard practice; insurers rely on their own rating manuals and actuarial data.

Thus, the most appropriate and expected content in a broker report is personal knowledge of the client, making B the correct answer.

### NEW QUESTION # 22

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