Advanced Skills for the Insurance Broker and Agent

IIC C131

Version Demo

Total Demo Questions: 9

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QUESTION NO: 1

Which action illustrates the duty of care required from a broker when arranging a client's insurance program?

A. Provide insurance options for known exposures

B. Disclose the percentage of the premium that will be paid as commission

C. Inspect all the client's premises and provide risk control recommendations

D. Await inquiries from the client before approaching the insurer on policy wording discrepancies

ANSWER: A

Explanation:

Providing insurance options for known exposures illustrates a broker's duty of care because arranging an insurance program is an advisory activity, not merely an administrative placement of a policy. A broker must use reasonable skill and diligence to understand the client's disclosed circumstances, recognize exposures that are known or reasonably apparent from the information obtained, and communicate insurance solutions that may address those exposures. This includes discussing relevant coverages, material limits, deductibles, exclusions, and other features that affect whether the program responds to the client's needs. The client remains responsible for making informed business decisions and for supplying accurate information, but the broker's professional role is to help the client make those decisions with an adequate understanding of available insurance protection. Offering appropriate choices for identified exposures demonstrates active, client-focused advice and supports a well-documented placement process. This approach is consistent with the professional expectation that intermediaries act competently, fairly, and in the client's interest while conducting insurance business. Guidance on fair treatment of customers is available from the Canadian Council of Insurance Regulators, and general information on the role of insurance brokers is available from the Insurance Bureau of Canada.

QUESTION NO: 2

What is insurer solvency?

A. An agreement between multiple insurance companies

B. An obligation to meet a rating company's opinion

C. The ability of an insurer to meet its financial obligations

D. The amount of claims an insurer has closed in the past year

ANSWER: C

Explanation:

Insurer solvency is correctly described as **"The ability of an insurer to meet its financial obligations."** In practical terms, this means the insurer has adequate assets, technical reserves, capital, and liquidity to pay claims and meet other obligations as they fall due, including under adverse loss conditions. Solvency protects policyholders because insurance coverage is a promise of future financial performance: a policy has value only if the insurer remains able to honour valid claims when a loss occurs. Insurance supervisors therefore monitor insurers' financial condition and impose capital, reserve, governance, and reporting requirements intended to ensure that insurers can continue meeting obligations to policyholders. For an insurance broker or agent, assessing solvency is an important part of market selection and client advice. This can involve considering an insurer's regulatory status, financial statements, claims-paying capacity, and independent financial-strength assessments. Although a financial-strength rating may provide useful information about an insurer's capacity to meet obligations, solvency itself is the underlying financial ability to do so. The International Association of Insurance Supervisors describes the supervisory objective as promoting insurers' safety and soundness and protecting policyholders; its Insurance Core Principles address valuation, capital adequacy, and solvency-related supervision. See the IAIS Insurance Core Principles and the OECD insurance policy resources.

QUESTION NO: 3

A broker is emailed by a prospect looking to cover his three stores that do not hold title to any goods, and can never be held contractually responsible for those goods. What type of stores are these?

A. Bailor

B. Consignment

C. Manufacturing

D. Freight forwarding

ANSWER: B

Explanation:

Consignment is correct because a consignment operation involves a business holding, displaying, and selling merchandise that remains owned by another party, the consignor. The store has possession of the goods and facilitates their sale, but title does not transfer to the store merely because the goods are on its premises or offered to customers. When an item sells, the store generally remits the agreed proceeds to the owner and retains a commission or other agreed share. This arrangement distinguishes a consignment store from a conventional retailer that purchases inventory and takes title before resale.

For insurance fact-finding, the absence of title is a central indicator that the applicant's stock exposure is not simply owned inventory. The broker should identify whose property is present, how values are reported, whether there is any care, custody, or control exposure, and what the governing consignment agreement says about responsibility for loss or damage. Those details help determine the appropriate treatment of property of others and any related legal-liability exposure under the applicable policy wording. Cornell Law School describes consignment as delivery of goods to another for sale while ownership remains with the consignor: Cornell Law School—Consignment. The Insurance Institute provides the professional education context for brokerage risk analysis: Insurance Institute—CIP Program.

QUESTION NO: 4

An insured who owns a factory had a major loss. A pressure vessel ruptured due to a faulty safety valve, causing water escape, that resulted in significant water damage. The insured is covered by two insurance policies. Which policy will cover this loss?

A. The insured's EBI policy will pay the loss in full.

B. The insured's CGL policy will pay the loss in full.

C. The insured's remediation policy will cover the loss.

D. The insured will select which policy to cover the loss.

ANSWER: A

Explanation:

The insured's EBI policy will pay the loss in full. The initiating event is the sudden and accidental mechanical breakdown of covered equipment: a pressure vessel ruptured because its safety valve was faulty. Equipment breakdown insurance is specifically intended to respond to direct damage caused by breakdown of equipment such as boilers and pressure vessels, as well as covered resultant physical damage. Here, the water escape and ensuing water damage flow directly from that rupture, so they form part of the loss arising from the equipment-breakdown occurrence.

Equipment breakdown coverage is an important complement to conventional commercial property coverage because it addresses internal mechanical failure and related damage that may not be treated as an ordinary external property peril. Pressure vessels are a central example of equipment for which this protection is designed. Subject to the policy's applicable limits, deductibles, and wording, the EBI policy therefore responds to both the rupture event and the consequential water damage described. This is consistent with insurers' descriptions of equipment breakdown protection for physical damage following covered mechanical or electrical breakdown. See HSB Canada's Equipment Breakdown Insurance overview and Travelers Canada's Equipment Breakdown coverage information.

QUESTION NO: 5

What type of property would be covered by mercantile stock burglary coverage under a crime insurance policy?

A. Furniture

B. Cheques

C. Securities

D. Paper currency

E. Merchandise held for sale

ANSWER: E

Explanation:

Mercandise held for sale is covered because mercantile stock burglary insurance is specifically designed to protect a mercantile business against direct loss of its stock resulting from burglary at the insured premises. In this context, “stock” means the inventory or merchandise that is usual to the insured’s business and is held for sale, such as clothing in a retail store, hardware in a hardware shop, or products held by a wholesaler. The coverage responds to the property interest that produces the business’s sales revenue: its merchandise inventory. The precise scope, conditions, limits, and definitions remain subject to the wording of the individual crime policy, including requirements concerning forcible entry and visible marks of burglary where applicable. A broker should identify the client’s actual inventory, its maximum values, its location, and any seasonal fluctuations so that the declared limit reflects the potential stock loss. This is consistent with the general business-insurance principle that commercial property and crime exposures must be matched to the client’s specific tangible-property and theft risks. See the Insurance Bureau of Canada’s overview of business insurance and the Government of Canada guidance on insurance for a business.

QUESTION NO: 6

A group of stockholders is bringing a class action lawsuit, stating that the finances of the corporation in which they hold stock are being mismanaged. Which policy would likely respond to such a lawsuit?

A. Fiduciary obligation

B. Employee dishonesty

C. Shareholders equity liability

D. Directors and officers liability

ANSWER: D

Explanation:

Directors and officers liability is the appropriate coverage because the allegation concerns the way the corporation is being governed and managed. Directors and officers have legal duties to the corporation and its shareholders, including duties associated with oversight, decision-making, financial reporting, and acting in the corporation’s best interests. A shareholder class action alleging financial mismanagement commonly asserts that directors or officers committed wrongful acts in carrying out these management responsibilities, such as breaches of duty, inadequate oversight, or misleading financial disclosures.

Directors and officers liability insurance, commonly called D&O insurance, is designed to address claims made against directors and officers for alleged wrongful acts in their insured capacities. Depending on the policy structure and the circumstances of the claim, it may fund defence costs and covered settlements or judgments, subject to the policy’s terms, limits, retentions, and exclusions. This management-liability protection is particularly important because shareholder litigation can name individual corporate leaders as defendants and can involve substantial legal expenses. The U.S. Securities and Exchange Commission describes directors’ and officers’ disclosure and governance responsibilities in its investor-information resources: SEC Exchange Act reporting requirements. For an overview of D&O insurance’s role in protecting corporate leadership, see the National Association of Insurance Commissioners’ business insurance guidance.

QUESTION NO: 7

What is governed by the Personal Information Protection and Electronic Documents Act (PIPEDA)?

A. The use of corporate governance information

B. The types of software that can be used in data mining

C. The consent requirement when the insurer requests an applicant's motor vehicle record

D. The consent requirement when a prospective employer is asking the candidate for a list of references and previous work history

ANSWER: C

Explanation:

The consent requirement when the insurer requests an applicant's motor vehicle record is governed by PIPEDA because this record contains personal information, including identifiable driving and licensing history. PIPEDA applies to the collection, use, and disclosure of personal information by organizations in the course of commercial activities. Insurance underwriting is a commercial activity, and insurers and brokers must therefore collect personal information only for purposes a reasonable person would consider appropriate and identify those purposes to the individual. Meaningful consent is generally required before an insurer obtains an applicant's motor vehicle record from a licensing authority or another source. The applicant must have sufficient information to understand the nature, purpose, and consequences of the collection, including that the record will be used to assess automobile-insurance risk and determine eligibility or pricing. Consent must be documented and handled in accordance with the insurer's privacy procedures. PIPEDA also requires organizations to limit collection to what is necessary, safeguard the record appropriately, and retain it only as long as needed for the identified purpose. The Office of the Privacy Commissioner of Canada explains the consent principle and organizations' responsibilities under PIPEDA at PIPEDA compliance guidance. The statute is available through the Justice Laws website.

QUESTION NO: 8

Sufi is a handywoman who regularly takes samples of her finished work to trade shows. Which coverage would Sufi's broker recommend for her samples?

A. Personal property coverage

B. Tool floater

C. Exhibition floater

D. Event liability coverage

ANSWER: C

Explanation:

Exhibition floater is the appropriate coverage because it is intended for property that is temporarily taken away from the insured's usual premises for exhibition, display, or similar business purposes. Sufi's finished-work samples travel to trade shows and are placed on display, so their exposure is not limited to her regular business location. The coverage can follow the samples through the trade-show process, including transportation to and from the venue and the period in which they are being exhibited, subject to the specific wording, limits, deductibles, and conditions of the policy.

A broker should arrange the floater using an accurate description and valuation of the samples, ensuring the limit reflects the amount at risk at any one show. The broker should also review whether the wording includes transit, loading and unloading, temporary storage, set-up and tear-down, and any territorial restrictions relevant to Sufi's activities. This is consistent with the role of inland marine/floaters: providing mobile property coverage for property that moves beyond a fixed premises. See the Insurance Bureau of Canada's overview of business insurance and IRMI's definition of inland marine insurance.

QUESTION NO: 9 - (SIMULATION)

Pure Meats Ltd. is a new company selling freezer-packed and processed meat products for resale in stores within Canada. The president has approached Rebecca, a broker who is an expert on products liability insurance. The media recently covered stories of individuals becoming ill or dying from listeriosis due to contaminated processed meat products. Identify the underwriting considerations and information Rebecca needs to assess this exposure. What will she recommend as part of an insurance program to cover the company's products liability exposure? Explain why.

ANSWER: Check the explanation for the answer

Explanation:

Rebecca should treat this as a high-hazard food-products liability exposure. Processed, ready-to-eat meat is particularly susceptible to contamination by *Listeria monocytogenes*. A single contaminated production lot can be widely distributed and result in severe bodily injury, death, class actions, and a costly recall.

Information and underwriting considerations

Nature of operations/products: Identify every product (raw versus processed; cooked, cured, deli/ready-to-eat, frozen), ingredients, preservatives, packaging, expected shelf life, and whether products are consumed without further cooking.
Supply chain: Obtain details of meat and ingredient suppliers, supplier-selection and audit procedures, contracts/hold-harmless agreements, certificates of insurance, and whether Pure Meats imports products or ingredients.
Production and quality controls: Review plant sanitation, HACCP/food-safety program, employee hygiene and training, testing procedures, inspection reports, equipment maintenance, and procedures to prevent cross-contamination.
Temperature and storage controls: Confirm refrigeration/freezer requirements, continuous temperature monitoring and alarms, records, backup power, warehouse practices, and cold-chain controls during transportation and retailer delivery.
Traceability and recall readiness: Determine whether each lot is batch-coded and traceable from supplier to customer; review the written recall/crisis-management plan, ability to notify retailers and consumers quickly, and procedures for product withdrawal, destruction, and replacement.
Labelling and compliance: Confirm expiry/best-before dates, safe-handling instructions, ingredient/allergen declarations, packaging integrity, and compliance with applicable Canadian food-safety and regulatory requirements.
Distribution and accumulation: Establish the geographic territory, number and type of retailers, sales volume, maximum value/volume of any one batch, and the potential number of consumers affected by a single occurrence. Canada-wide retail distribution increases aggregation and catastrophe potential.
Loss and financial information: Obtain prior claims, incidents, recalls, complaints, inspection deficiencies, annual revenues/projected sales, product mix, and management's food-industry experience. As a new venture, limited claims history makes documented controls especially important.

Recommended insurance program

Commercial General Liability (CGL), including completed operations/products liability: This should provide defence and indemnity for the company's legal liability for third-party bodily injury or property damage caused by its contaminated meat products. Limits should be selected with the possibility of widespread illness, fatalities, and multiple claimants in mind; the aggregate/products-completed-operations limit must be adequate.
Product contamination/product recall expense coverage: Recommend a dedicated product-recall or accidental-contamination policy/endorsement, with limits appropriate to the maximum foreseeable recall. It can address costs normally not covered by the CGL, such as testing, withdrawal and disposal, customer/retailer notification, transportation, replacement expenses, crisis consultants, public relations, and brand rehabilitation.
Consider tailored extensions: Depending on the policy wording and operations, seek coverage for government-mandated recalls, malicious tampering, business interruption/loss of gross profit, and third-party recall liability. Review exclusions and trigger wording carefully.

Why: A CGL responds principally to damages because of third-party bodily injury or property damage. It will not necessarily pay Pure Meats' own cost to remove safe or potentially contaminated product from the market, manage adverse publicity, or restore sales. The combination of strong products liability coverage and separate contamination/recall protection addresses both the severe injury liability arising from listeriosis and the substantial first-party financial consequences of a food recall.