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Essential Skills for the Insurance Broker and Agent

IIC C130

Version Demo

Total Demo Questions: 9

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QUESTION NO: 1

Which document releases the insurer from further obligations for a loss after payment is made?

A. Proof of loss

B. Sworn statement

C. Non-waiver agreement

D. Reservation of rights letter

E. Release

ANSWER: E

Explanation:

Release is correct because it is the settlement document by which the claimant agrees to accept payment in full and final satisfaction of the specified loss or claim. Once it has been properly executed and the agreed payment is made, the release records the parties' intention to conclude that claim and protects the insurer against further demands arising from the matters covered by its wording. Its scope is important: a release should clearly identify the claimant, insurer, loss, payment, and claims being released, since its legal effect depends on the language used and the surrounding settlement circumstances. In an adjusting context, it is normally obtained where the payment is intended to be final rather than simply an interim or undisputed payment. This is consistent with the general legal function of a release as a contract that extinguishes or gives up a claim. Canadian courts interpret releases according to their text, context, and the parties' objective intentions, as illustrated by the Supreme Court of Canada's discussion in Corner Brook (City) v. Bailey. Claim settlement also requires careful documentation and communication with the insured or claimant; practical consumer information on the claims process is available from the Insurance Bureau of Canada.

QUESTION NO: 2

During a renewal review, a broker recommends that a homeowner add sewer backup coverage because the property has a finished basement. The client declines the coverage in order to reduce the premium. What should the broker do?

A. Renew the policy without further action because the client selected the lower premium.

B. Add the coverage despite the client's instruction because the basement is finished.

C. Document the recommendation, the client's decline, and the renewal instructions.

D. Tell the client that sewer backup coverage can only be discussed after a loss occurs.

ANSWER: C

Explanation:

The broker should document the recommendation, the client's decision to decline the coverage, and the client's instructions to proceed with renewal. The finished basement creates a potentially significant exposure to damage from a sewer backup, so the broker's recommendation and the client's informed decision should be clearly recorded.

Documentation does not replace the need to explain the coverage, but it provides a contemporaneous record that the broker identified the exposure and that the client made the final coverage decision. Simply renewing the policy without recording the discussion could create uncertainty later about whether the option was raised and understood.

QUESTION NO: 3

Which item would be insured under a personal articles floater?

A. Antique table

B. Leather sofa

C. Coffee machine

D. Stamp collection

ANSWER: D

Explanation:

Stamp collection is the appropriate item for a personal articles floater because a collection has a distinct, potentially substantial value that may not be adequately protected by the standard contents coverage in a home policy. Personal articles floaters, also called scheduled personal-property coverage in many policy wordings, are designed to insure specified valuable possessions individually. The item is normally described on the policy and insured for an agreed, appraised, or otherwise documented amount. This approach is particularly useful where an item's value depends on rarity, condition, completeness, provenance, or collector demand rather than merely its ordinary replacement cost.

Scheduling a stamp collection can also provide broader protection than unscheduled household contents insurance, subject to the particular insurer's wording. The broker or agent should obtain a current inventory and appropriate valuation, identify material changes to the collection, and ensure the stated amount reflects the client's insurance needs. This supports accurate placement of coverage and helps the insured demonstrate the nature and value of the property following a loss. The Insurance Bureau of Canada explains the importance of reviewing home-insurance coverage and limits for personal belongings: IBC home insurance information. General consumer guidance on documenting possessions is also available from the Government of Canada: Home insurance guidance.

QUESTION NO: 4

What should a broker do when selecting coverage for a client?

A. Ensure that only standard policy wordings are used

B. Compare wordings based on an analysis of the client's needs

C. Place the policy with the insurer that has the most legally-worded policies

D. Overinsure the client to protect the broker from an errors and omissions claim

ANSWER: B

Explanation:

"Compare wordings based on an analysis of the client's needs" is correct because coverage selection is a needs-based professional activity. A broker must first obtain sufficient information about the client's operations, property, income-producing activities, contractual commitments, liability exposures, existing insurance, and risk tolerance. That information allows the broker to identify the exposures requiring protection and then assess whether available insurance contracts respond appropriately.

Comparing wordings means looking beyond the policy premium or headline limit. The broker should consider the scope of insuring agreements, definitions, exclusions, conditions, deductibles, extensions, sublimits, valuation provisions, and applicable endorsements. The recommended coverage should address the client's material exposures as closely as the insurance market permits, while significant gaps, restrictions, and client decisions should be clearly communicated and documented. This approach supports informed client consent and helps demonstrate that the broker exercised reasonable care in making a recommendation.

This reflects the Insurance Institute's emphasis in C130 on the broker's role in moving from a client quotation to suitable policy placement and understanding policy wording. See the Insurance Institute C130 course information and the Insurance Institute of Canada.

QUESTION NO: 5

A prospective homeowner tells her broker that she plans to begin operating a hair salon from a converted room in her home shortly after the policy is issued. What should the broker do?

A. Arrange a standard homeowners policy because the business has not yet begun.

B. Disclose the planned business use to the insurer and obtain underwriting direction.

C. Arrange the homeowners policy and wait until the first client appointment to report the business.

D. Advise the client that personal liability coverage automatically includes all home-based business activities.

ANSWER: B

Explanation:

The broker should disclose the planned business use to the insurer and obtain its underwriting decision before representing that a standard homeowners policy is suitable. Regular client visits, business equipment, stock, and liability arising from salon operations can materially change the property and liability exposure. A standard personal-lines policy may restrict or exclude business-related losses or require an endorsement or commercial coverage.

QUESTION NO: 6

A tenantâ€™s negligence causes a fire in the dwelling they rent. Typically, who is initially responsible for paying the damage?

A. The tenant who negligently caused the fire

B. The insurer that issued the homeowners policy

C. The insurer that issued the tenantâ€™s legal liability policy

D. The dwellingâ€™s owner who is responsible for the tenantâ€™s actions

ANSWER: B

Explanation:

The insurer that issued the homeowners policy is typically responsible for the initial payment of insured fire damage to the rented dwelling. The dwelling is the landlord’s property interest, and the homeowner or residential property policy is the first-party contract that insures the building itself against covered perils such as fire, subject to its terms, limits, deductible, and conditions. Accordingly, the owner presents the building-damage claim to their own property insurer, which adjusts and indemnifies the covered loss directly under that policy. This initial claim process is separate from determining whether another party was legally at fault for causing the fire. Once the property insurer has paid a covered loss, it may have subrogation rights: it can seek recovery, in the insured’s name and subject to applicable law and contractual provisions, from the party whose negligence caused the loss. The tenant’s legal-liability coverage may therefore become relevant later if the insurer pursues recovery, but the owner’s building policy is ordinarily the policy that responds first to physical damage to the dwelling. This reflects the distinction between first-party property coverage and liability coverage. See the Insurance Bureau of Canada’s overview of property insurance and its explanation of liability insurance.

QUESTION NO: 7 - (SIMULATION)

Briefly describe an exclusive agency company as a distribution channel that delivers insurance products to consumers.

ANSWER: Check the explanation for the answer

Explanation:

Answer: An exclusive agency company distributes insurance through agents who are contracted or appointed to represent only that insurer (or a limited group of affiliated insurers). The agents sell that company's products directly to consumers, provide quotes and service, and do not normally shop coverage among competing insurers.

This channel gives the insurer close control over product presentation, training, underwriting practices, and customer service, but gives consumers fewer insurer choices than an independent brokerage channel.

QUESTION NO: 8

John, a broker, has binding authority for comprehensive homeowners policies up to $200,000. On Saturday morning, a potential client calls John and advises that she is at the lawyerâ€™s office signing the purchasing documents for a $500,000 home and requires comprehensive homeowners coverage immediately. What action should John take?

A. Provide coverage on a named-perils basis

B. State that he will try to arrange coverage with the insurer on Monday morning

C. Issue a cover note providing a comprehensive homeowners policy with a policy limit of $500,000

D. Inspect the home and, if the risk is acceptable, issue a comprehensive homeowners policy with a limit of $500,000

ANSWER: B

Explanation:

"State that he will try to arrange coverage with the insurer on Monday morning" is correct because a broker's authority to bind an insurer is defined and limited by the insurer's binding authority agreement. John has authority only for comprehensive homeowners policies up to $200,000. The client's request concerns a $500,000 home, so the requested risk must be referred to the insurer for approval before any comprehensive coverage can be represented as bound. The fact that the client needs coverage urgently, or that the request occurs outside normal business hours, does not enlarge John's delegated authority. John should clearly communicate that he will seek the insurer's decision as soon as it is available, while avoiding any statement or document that could lead the client to believe coverage is already in force. This approach properly protects the client by giving an accurate account of the coverage status and protects the brokerage and insurer by ensuring that the insurer, rather than the broker acting beyond delegated limits, decides whether and on what terms to accept the risk. Binding authority is a controlled underwriting function and must be exercised within the insurer's written limits. See the Insurance Institute CIP program and the Ontario Insurance Act.

QUESTION NO: 9

Which action on the part of the insured would most likely result in a surcharge to the insurance policy?

A. Disclosure that his home has two mortgages

B. Installation of a high-end home security system

C. Trade-in of an existing vehicle for an eco-friendly vehicle

D. Purchase of a new sports car for his teenage son to drive

ANSWER: D

Explanation:

"Purchase of a new sports car for his teenage son to drive" is the action most likely to produce a surcharge because it materially changes the automobile risk being rated. Insurers calculate premiums using characteristics that predict the likelihood and expected cost of claims. Adding a youthful or newly licensed driver commonly increases loss exposure because that driver has comparatively limited driving experience. Assigning that driver to a new sports car can further increase the expected cost of a loss: vehicle performance, repair costs, parts costs, theft attractiveness, and collision-loss experience can all affect the insurer's rating assessment. The insurer must be told about a newly acquired vehicle and about regular drivers in the household so that the policy reflects the actual risk; the premium can then be adjusted at the time of the change or renewal. In practical broker and agent work, this is a material change in vehicle use and driver information that should be reported promptly and documented accurately. The Insurance Bureau of Canada explains that automobile insurance premiums are based on rating factors, including the driver and vehicle, while its consumer guidance also emphasizes providing complete, accurate information to an insurer. See IBC: How auto insurance premiums are calculated and IBC: Auto insurance basics.