Insurance Institute C130 Practice Questions

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Question 1

Question Type: MultipleChoice

An insurer issues a special clause on a property policy for a restaurant which denies coverage unless a sprinkler system is installed and active in the kitchen at the time of a fire loss. What type of clause has the insurer issued?

Options:

A- Condition
B- Exclusion
C- Subscription
D- Requirement

Answer:

A

Explanation:

The clause is a condition because it makes coverage dependent on the insured satisfying a specified obligation: having a sprinkler system installed and active in the kitchen at the time of a fire loss. Conditions are policy provisions that impose duties or requirements on the insured and may affect whether coverage applies if they are breached. Although the clause has a restrictive effect, it is not best classified as an exclusion. An exclusion removes coverage for a defined peril, cause, property, person, or circumstance. Here, the policy is not excluding all restaurant fires; it is requiring a protective safeguard as a precondition to coverage. ''Subscription'' refers to a situation where multiple insurers participate in a risk, not a policy clause of this nature. ''Requirement'' is a plain-language description, but the technical wording category is condition. Brokers must highlight these clauses to clients because failure to maintain protective systems can defeat an otherwise valid claim. Reference/topics: Property Insurance---Wordings; conditions, protective safeguards, fire protection requirements, policy compliance.

Question 2

Question Type: MultipleChoice

SIMULATION

Lindy, a new producer, has a robust client list and has struggled to find time to acquire new

customers. To meet her aggressive sales goals, she has decided to pivot to increasing revenues primarily from her current clients.

Discuss the TWO techniques that will allow Lindy to grow her business mainly from within.

Options:

A- See the solution in Explanation below

Answer:

A

Explanation:

The two techniques Lindy should use are cross-selling and upselling.

The first technique is cross-selling. Cross-selling means offering existing clients additional insurance products that meet needs they may not yet have insured through Lindy. For example, if a client already has automobile insurance with her, Lindy may review whether they also need homeowners, tenant, condominium, umbrella liability, travel, business, or recreational vehicle coverage. This allows Lindy to grow revenue from her existing client base without having to find completely new customers. It is also a strong service technique because it helps identify gaps in the client's insurance program. However, cross-selling must be based on a proper needs analysis, not pressure selling. Lindy should review the client's lifestyle, property, family situation, business activities, and liability exposures before recommending additional products. Cross-selling is specifically recognized as a sales/prospecting concept in the course question set.

The second technique is upselling. Upselling means encouraging an existing client to improve, broaden, or increase the coverage they already have. This may include higher liability limits, lower deductibles, broader policy forms, enhanced endorsements, guaranteed replacement cost, sewer backup, identity theft, scheduled personal articles, legal expense coverage, or umbrella liability. Upselling is different from cross-selling because Lindy is not necessarily selling a separate new policy; she is improving the quality or amount of coverage already in place. This can increase commission revenue while also improving client protection. Like cross-selling, it must be ethical and needs-based. Lindy should explain the benefit, cost, limitation, and risk of not purchasing the enhancement. She should document the recommendation and the client's decision, especially if the client declines broader coverage.

Question 3

Question Type: MultipleChoice

When brokers are self-regulated, which body enacts the licensing laws?

Options:

A- Federal government only
B- Provincial or territorial government
C- Brokerage or agency in which the intermediary is employed
D- Insurance company with which the intermediary places the majority of business

Answer:

B

Explanation:

Insurance broker and agent licensing is a provincial or territorial matter in Canada. Even where a profession is described as self-regulated, that does not mean brokerages, insurers, or private industry groups create the licensing law independently. Self-regulation generally means that a delegated council, regulator, or industry body may administer licensing, discipline, education, continuing education, and conduct standards under authority granted by provincial or territorial legislation. The federal government is not the primary licensing authority for ordinary insurance intermediaries, making option A incorrect. A brokerage or agency may supervise employees and impose internal compliance requirements, but it cannot enact licensing laws. Likewise, an insurer may appoint agents, grant binding authority, or impose underwriting rules, but it does not create the legal licensing framework. The correct answer is provincial or territorial government because insurance regulation, intermediary licensing, and market conduct rules are established under provincial or territorial statutes and regulations. Reference/topics: Insurance and the Intermediary; licensing, self-regulation, provincial/territorial regulation, intermediary compliance.

Question 4

Question Type: MultipleChoice

Trevor is cutting down a tree in his backyard. The tree accidentally falls onto his neighbour's shed, destroying the roof. Two weeks later, Trevor receives a document from his neighbour suing him for the damages to the shed and its contents. Which document has Trevor received?

Options:

A- Judgment notice

B- Statement of claim
C- Damages attestation
D- Statement of defence

Answer:

B

Explanation:

Trevor has received a statement of claim. A statement of claim is the legal document that starts a civil lawsuit and sets out the claimant's allegations, the facts relied on, and the damages being sought. In this scenario, the neighbour is suing Trevor for damage to the shed and contents allegedly caused by Trevor's negligent tree-cutting activity. A judgment notice would come later, after a court has made a decision or entered judgment. A statement of defence is the responding document filed by the defendant after being sued; it is not the document Trevor receives from the claimant to initiate the action. ''Damages attestation'' is not the standard legal pleading in this context. From a claims-handling perspective, Trevor should immediately forward the statement of claim to his insurer or broker and avoid admitting liability or negotiating independently. Liability policies typically require prompt notice and cooperation when legal proceedings are received. Reference/topics: Claims; statement of claim, liability lawsuit, legal documents, notice to insurer, defence obligations.

Question 5

Question Type: MultipleChoice

What should the intermediary do if the person reporting the claim is not named on the insurance policy?

Options:

A- Contact the police
B- Send the client a statement of claim
C- Attempt to discuss the matter with the client
D- Ask the insurer to add the interested party as an additional insured

Answer:

C

Explanation:

If a claim is reported by someone who is not named on the policy, the intermediary should attempt to discuss the matter with the client. The broker must protect confidentiality, verify authority, and avoid disclosing policy information to an unauthorized person. At the same time, the report may still involve a valid loss, so the broker should not ignore it. Speaking with the named insured allows the intermediary to confirm whether the claim is legitimate, whether the reporting person has authority to act, and whether notice should be forwarded to the insurer. Contacting the police is not automatically required unless the facts suggest crime, injury, fraud, or legal reporting obligations. Sending a statement of claim is incorrect; that is a legal pleading, not a broker response. Adding the reporting party as an additional insured would be inappropriate without underwriting approval, insurable interest, and the insured's instruction. The correct claims-service approach is controlled communication, verification, documentation, and prompt reporting once authority and facts are confirmed. Reference/topics: Claims; claim reporting, confidentiality, named insured authority, broker communication, claims intake procedure.

Question 6

Question Type: MultipleChoice

Which article is not insured for off-premises coverage unless it is scheduled?

Options:

A- Firearm
B- Silverware
C- Business computer
D- Musical instrument

Answer:

C

Explanation:

A business computer is the strongest answer because personal property policies commonly restrict business property, especially when it is away from the premises or used for business purposes. Homeowners insurance is designed primarily for personal property and personal exposures, not commercial equipment used away from the residence. A business computer may need to be specifically scheduled, endorsed, or insured under a business policy to obtain proper off-premises protection. Firearms, silverware, and musical instruments may be subject to

special limits, theft limitations, or scheduling recommendations, but they are not as clearly excluded from off-premises coverage solely because of their nature. The business use changes the underwriting character of the item. This is a common client misunderstanding: a laptop may look like ordinary personal property, but if it is business property or used professionally, the standard policy may restrict or deny coverage. Brokers must ask about business use of property and recommend endorsements or commercial coverage where required. Reference/topics: Property Insurance---Wordings; off-premises property, business property limitations, scheduling, homeowners coverage restrictions.

Question 7

Question Type: MultipleChoice

Why is the precedent-setting case Fine's Flowers Ltd. et al. v. General Accident Assurance Co. of Canada et al. significant?

Options:

A- Outlined the intermediary's stringent duty of care owed to clients
B- Restructured the content of agency contracts between insurers and intermediaries
C- Established that intermediaries will be held accountable if they provide legal advice
D- Defined special risks and the responsibility the insurer has to limit the intermediary's authority

Answer:

A

Explanation:

Fine's Flowers is significant because it is commonly associated with the elevated professional duty owed by insurance intermediaries to their clients. The case reinforces that brokers and agents are not simply order-takers. They must exercise reasonable skill, care, and diligence in assessing the client's insurance needs and arranging appropriate coverage. In practical terms, this means an intermediary should ask competent questions, understand the client's operations or personal exposures, explain material limitations, and recommend suitable insurance solutions. The case is not primarily about rewriting agency contracts between insurers and intermediaries, so option B is too narrow and incorrect. Option C is also not the best answer; while intermediaries must avoid unauthorized legal advice, the key significance is broader professional negligence and client duty of care. Option D incorrectly shifts the focus toward insurer authority and special risks. The practical lesson for brokers and agents is direct: failure to identify or recommend necessary coverage may lead to E&O liability. Reference/topics: Insurance and the Intermediary; professional duty of care, E&O exposure, client needs analysis,

intermediary negligence.

Question 8

Question Type: MultipleChoice

What refers to one's ability to pay for any damage incurred as a result of the driver's actions or inaction?

Options:

A- Accident benefits
B- No-fault insurance
C- Financial responsibility
D- Uninsured motorist coverage

Answer:

C

Explanation:

Financial responsibility refers to a driver's ability to respond financially for damage or injury caused by the driver's actions or failure to act. In automobile insurance, compulsory insurance laws are built around this concept: drivers must be able to compensate others for bodily injury or property damage arising from automobile use. Accident benefits are first-party benefits payable to insured persons for certain injury-related expenses or income loss, regardless of fault, depending on the jurisdiction. No-fault insurance describes a claims-handling or benefits system where certain losses are paid by the insured's own insurer without first proving fault; it is not the term for ability to pay. Uninsured motorist coverage protects an insured when injured or damaged by a driver who lacks required insurance. The correct answer is financial responsibility because it captures the legal and practical requirement that motorists have resources, usually insurance, to satisfy liability obligations. Brokers must explain liability limits carefully because minimum compulsory limits may be inadequate for serious injuries. Reference/topics: Automobile Insurance; financial responsibility, compulsory insurance, third-party liability, automobile regulation.

Question 9

Question Type: MultipleChoice

Which name is a legal entity?

Options:

A- Best Brokers
B- Trains 'R Rolling
C- Joe's Bar and Grill
D- Olivia Clemente dba Discovery Playcare

Answer:

D

Explanation:

A legal entity is a person or organization capable of owning property, entering contracts, suing, being sued, and being named as an insured. ''Olivia Clemente dba Discovery Playcare'' identifies an individual person, Olivia Clemente, who is doing business under the trade name Discovery Playcare. The individual is the legal entity; the business name is merely the operating name. The other choices appear to be trade names or business styles without enough information to confirm a legal person, corporation, partnership, or registered entity. This matters in insurance because the named insured must be correctly identified. If the policy names only a trade name that is not a legal entity, coverage disputes may arise over ownership, insurable interest, liability protection, claims payment, and who has authority to make changes. Brokers and agents must confirm whether the insured is an individual, corporation, partnership, estate, trust, condominium corporation, or other recognized legal entity. Getting the name wrong is a classic application error and potential E&O exposure. Reference/topics: The Application Process; named insured, legal entity, trade names, insurable interest.

Question 10

Question Type: MultipleChoice

Which statement about the expiry dates of binders is correct?

Options:

A- Binders must include the statement ''valid for one year.''
B- The expiry date must automatically be 30 days from the effective date of the policy.
C- An open expiry date should be used in case the delivery of the formal policy is delayed.
D- To minimize the risk of overlooking an expiring binder, the expiry date should fall on a business day.

Answer:

D

Explanation:

A binder is temporary evidence of insurance and must be controlled carefully. The expiry date should fall on a business day so the broker, insurer, and client can act before coverage uncertainty arises. This is a practical E&O control because binders can be overlooked if they expire on weekends, holidays, or dates when no one is available to confirm replacement documentation or insurer acceptance. Option A is incorrect because binders are not automatically valid for one year; they are temporary and should be replaced by formal policy documentation or confirmed coverage. Option B is also incorrect because a 30-day period may be common in some situations but is not an automatic rule for all binders. Option C is dangerous because open-ended binders create uncertainty and may exceed the broker's authority or the insurer's intended commitment. A binder should clearly state the insured, insurer, coverage, limits, effective date, expiry date, and key terms. Reference/topics: From Quote to Policy; binders, temporary insurance, expiry control, documentation, E&O risk management.

Question 11

Question Type: MultipleChoice

Priya, a broker, receives a call from a prospective client, Umberto. Priya handles Umberto's inquiry and at the end of the call asks how he heard about her brokerage. He states that his manager at work has their home and auto coverage placed with Priya's brokerage. Which prospecting method would Priya check off on her questionnaire?

Options:

A- Cross-selling
B- Cold calling
C- Marketing
D- Upselling

Answer:

C

Explanation:

The best answer is marketing because Umberto became aware of Priya's brokerage through an indirect promotional or reputation-based channel: word-of-mouth from another person connected to the brokerage's existing client base. This is not cross-selling, because cross-selling means offering an additional product line to an existing client, such as offering home insurance to an auto client. It is not cold calling, because Priya did not initiate contact with Umberto without a prior relationship or inquiry; Umberto called her. It is not upselling, because upselling involves encouraging a client to purchase higher limits, broader coverage, or enhanced features on an existing product. In sales practice, the question ''How did you hear about us?'' helps the brokerage track the effectiveness of prospecting channels, marketing campaigns, referrals, client satisfaction, and brand recognition. Even when the source is informal word-of-mouth, the broader category is marketing because it reflects how the brokerage attracted the prospect. Reference/topics: Sales; prospecting, marketing source tracking, referrals, client acquisition methods.

Question 12

Question Type: MultipleChoice

Which item would be insured under a personal articles floater?

Options:

A- Antique table
B- Leather sofa
C- Coffee machine
D- Stamp collection

Answer:

D

Explanation:

A stamp collection is a classic item insured under a personal articles floater or scheduled personal property coverage. Personal articles floaters are used for valuable items that require

broader coverage, specific scheduling, agreed or appraised values, and protection beyond the limits or restrictions of an ordinary homeowners policy. Common examples include jewellery, furs, cameras, musical instruments, silverware, fine arts, coin collections, and stamp collections. An antique table may require special treatment, but it is more likely to fall under fine arts, antiques, or scheduled property depending on the wording, not the clearest personal articles floater example here. A leather sofa and coffee machine are ordinary household contents and would normally be handled under the contents section of a homeowners policy, subject to limits and exclusions. The purpose of a floater is to address items with high value, portability, collectability, or special loss settlement needs. Brokers should recommend scheduling where ordinary contents coverage is inadequate. Reference/topics: Property Insurance---Wordings; personal articles floater, scheduled property, stamp collections, special limits.

Question 13

Question Type: MultipleChoice

Which homeowners package policy provides all-perils coverage on the building and named-perils coverage on the contents?

Options:

A- Basic
B- Broad
C- Standard
D- Comprehensive

Answer:

B

Explanation:

The broad form homeowners policy typically provides all-perils coverage on the dwelling building and named-perils coverage on personal property or contents. This structure gives broader protection for the building, which is usually the insured's largest property exposure, while applying more limited named-perils protection to contents. The basic or standard form is generally narrower because it covers both building and contents on a named-perils basis. The comprehensive form is broader because it generally provides all-perils coverage for both building and contents, subject to exclusions and conditions. Therefore, the correct match is broad form. The distinction matters because ''all-perils'' does not mean every possible loss is covered; it means all direct physical loss is covered unless excluded. Named-perils coverage works the opposite way: the loss must be caused by a peril specifically listed in the policy. Brokers must be precise when explaining these forms because clients frequently confuse broad

and comprehensive coverage. Reference/topics: Property Insurance---Wordings; homeowners package forms, broad form, named perils, all-perils coverage.

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