Insurance Institute C131 Practice Questions

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Question 1

Question Type: MultipleChoice

An employee of a self-storage facility is careless and causes a fire resulting in damages to the contents in three rental storage units. The renters of the units could seek reimbursement under which policy?

Options:

A- Rental insurance policy
B- Commercial property floater policy
C- Warehouseman's legal liability policy
D- Contingent business interruption policy

Answer:

C

Explanation:

The correct answer is C. Warehouseman's legal liability policy. A warehouseman's legal liability policy covers the insured's legal liability for loss or damage to property of others while that property is in the insured's care, custody, or control as a warehouseman or storage operator, subject to the wording and legal responsibility. In this scenario, the self-storage facility's employee negligently causes a fire that damages renters' contents in storage units. The renters own the damaged property, but they may seek reimbursement from the storage facility if the facility is legally responsible for the loss. Because the damage arises from the storage operation and negligence of the facility's employee, warehouseman's legal liability is the most appropriate coverage among the options. A rental insurance policy would normally be purchased by the renter to cover their own property, not the storage operator's liability. A commercial property floater covers property of the insured, not necessarily liability for customers' stored goods. Contingent business interruption applies to income loss caused by damage to another party's property that affects the insured's operations; it does not fit this claim. Course topic reference: Liability; Property of Others; Warehouseman's Legal Liability; Storage Operations; Care, Custody, and Control.

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Question 2

Question Type: MultipleChoice

Derek arranges hard-to-place insurance for contractors with specialized equipment. In addition to the condition of the equipment, what can Derek determine about the risk by examining photographs?

Options:

A- Moral hazard, if there are poor maintenance habits
B- Product information, which is always better than an inventory list
C- Proprietary information, which is not always included with an application
D- Physical hazard, if the client does not have the latest equipment upgrades

Answer:

A

Explanation:

The correct answer is A. Moral hazard, if there are poor maintenance habits. In underwriting contractors' equipment, photographs can reveal more than the physical condition of machinery. They may also show how the insured manages, stores, maintains, and protects the equipment. Poor maintenance habits, careless storage, visible neglect, unsafe job-site practices, unrepaired damage, or disorganized yards may indicate a poor attitude toward loss prevention. Strictly speaking, poor maintenance is often described as a morale hazard, because it reflects carelessness or indifference rather than deliberate dishonesty. However, within the answer set, option A is the intended answer because it connects observed poor maintenance practices with the insured's risk quality. Option B is wrong because photographs are not always better than an inventory list; both may be needed. Option C is not the central underwriting purpose of photographs. Option D is too narrow because not having the latest upgrades does not automatically create a physical hazard. The practical underwriting value of photographs is that they help the broker and insurer assess risk quality, maintenance discipline, and loss-control attitude. Course topic reference: Analyzing Risk Exposures; Contractors; Equipment Floaters; Underwriting Information; Hazard Assessment.

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Question 3

Question Type: MultipleChoice

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

Options:

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

Answer:

A

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.

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Question 4

Question Type: MultipleChoice

What is the purpose of a letter of authorization?

Options:

A- Acts as express written permission for the broker to bind any policies on behalf of the insurer
B- Confirms the exclusive business agreement between the intermediary and the insurance company
C- Permits an insured to nominate a legal representative to speak and transact business on her behalf

D- Directs the underwriter to deal with the broker named in the letter on the particular client's account

Answer:

D

Explanation:

The correct answer is D. Directs the underwriter to deal with the broker named in the letter on the particular client's account. A letter of authorization, also called a broker authorization letter or broker of record letter in many market contexts, is used by a client to authorize a specific broker to represent them in dealings with insurers. Its practical effect is to tell the insurer or underwriter which broker has authority to receive information, negotiate terms, obtain quotations, or handle the account. It does not give the broker unlimited authority to bind policies on behalf of the insurer; binding authority depends on insurer agreements and broker contracts. It also does not create an exclusive business agreement between the intermediary and the insurance company. The relationship is account-specific and client-driven. Option C is too broad and resembles a legal representation or power of attorney concept rather than an insurance-market authorization. Letters of authorization are especially important when multiple brokers are approaching the same insurer. They help avoid duplicate submissions, market confusion, and disputes over which broker controls the account. Course topic reference: Introduction to Commercial Insurance; Broker Authority; Letters of Authorization; Market Submissions; Client Representation.

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Question 5

Question Type: MultipleChoice

Graham works at a brokerage where responsibilities are divided among the staff. His daily work consists of analyzing quotations and creating client proposals. What is his role?

Options:

A- Producer
B- Marketer
C- Underwriter
D- Adjuster

Answer:

B

Explanation:

The correct answer is B. Marketer. In a brokerage environment, roles may be divided among producers, account managers, marketers, claims staff, and administrative personnel. A marketer's role commonly involves preparing submissions, approaching insurance markets, obtaining quotations, comparing terms, analyzing coverage differences, reviewing premiums and deductibles, and helping create proposals for clients. Graham's daily duties---analyzing quotations and creating client proposals---fit the marketer function. A producer is usually more focused on generating new business, building client relationships, identifying prospects, and closing accounts. An underwriter works for the insurer and evaluates whether the insurer should accept a risk, under what terms, and at what premium. An adjuster investigates and resolves claims after a loss. The marketer is a critical technical role because the quality of quotation analysis affects whether the client receives suitable coverage and whether the proposal accurately explains differences among insurers. Strong marketers understand coverage forms, exclusions, subjectivities, premiums, deductibles, limits, and insurer appetite. Course topic reference: Introduction to Commercial Insurance; Brokerage Operations; Marketer Role; Quotations and Client Proposals.

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Question 6

Question Type: MultipleChoice

Insurance premiums on automobile fleet policies are based on which factor?

Options:

A- Overall experience of all drivers
B- Driving record of the individual drivers
C- Original purchase price of all vehicles in the fleet
D- Mechanical condition of a vehicle from one particular fleet

Answer:

A

Explanation:

The correct answer is A. Overall experience of all drivers. Fleet automobile insurance is rated differently from ordinary individual automobile insurance. In a personal or individually rated commercial auto policy, the insurer may focus heavily on the driving record of a specific driver, the vehicle's use, location, and vehicle characteristics. In a fleet policy, however, the underwriting approach looks at the entire group of vehicles and drivers as a collective exposure. The insurer is concerned with the overall claims experience, loss frequency, loss severity, driver controls, vehicle use, fleet size, safety procedures, maintenance practices, and management of the fleet as a whole. The individual driving records may still be reviewed as part of underwriting, but the premium basis is not simply the record of one driver. Likewise, original vehicle purchase price and the mechanical condition of one vehicle do not determine the fleet premium by themselves. The key underwriting logic is that a fleet produces a pattern of risk over time. Therefore, the insurer prices the policy according to the overall experience and performance of the entire fleet operation. Course topic reference: Automobile, Crime, and Bonds; Commercial Automobile Insurance; Fleet Rating; Underwriting Factors.

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Question 7

Question Type: MultipleChoice

What type of liability policy would cover a product liability exposure arising from an error in the manufacturing design of a product?

Options:

A- Garage liability
B- Architect's liability
C- Commercial general liability (CGL)
D- Directors and officers liability (D&O)

Answer:

C

Explanation:

The correct answer is C. Commercial general liability (CGL). A manufacturing design error that results in a defective product creates a products liability exposure. Under a commercial general liability policy, products-completed operations coverage is designed to respond to third-party bodily injury or property damage arising out of the insured's products after they have left the insured's possession. If a product is defectively designed, manufactured, labelled, or distributed and that defect causes injury or damage, the manufacturer may face legal liability. Garage

liability is intended for automobile garage operations and is not the proper policy for general manufacturing product defects. Architect's liability applies to professional design services in architecture, not manufacturing design of ordinary commercial products. Directors and officers liability protects corporate managers against governance-related claims, not bodily injury or property damage from defective products. The key issue is that the exposure arises from the insured's product entering the stream of commerce and causing harm. CGL products liability is therefore the correct coverage foundation, though specialized product recall or errors coverage may also be needed depending on the risk. Course topic reference: Liability; Manufacturers, Distributors, and Freight Forwarders; Products Liability; CGL Products-Completed Operations.

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Question 8

Question Type: MultipleChoice

By conducting online research of a risk's profile and website, and asking about supplies, machinery, and manufacturing process used, which liability exposure of the risk is being assessed?

Options:

A- Current
B- Premises
C- Contractual
D- Professional

Answer:

A

Explanation:

The correct answer is A. Current. The wording points to current operations liability exposure. When a broker researches a business profile, reviews its website, and asks about supplies, machinery, and manufacturing processes, the broker is trying to understand what the business is currently doing and how those operations may injure third parties or damage their property. Current operations exposure includes the risk arising from ongoing business activities, such as manufacturing, processing, handling raw materials, operating machinery, moving goods, using hazardous substances, or interacting with customers and suppliers. Premises liability focuses mainly on hazards connected with the insured location, such as slip and fall risks, building condition, access, lighting, and maintenance. Contractual liability focuses on obligations assumed under contracts, indemnity agreements, leases, or service agreements. Professional

liability concerns errors in specialized advice or professional services. The facts in this question are operational: supplies, machinery, and manufacturing process. These are not mainly premises, contract, or professional issues. The broker is assessing the liability arising from the insured's current business operations. Course topic reference: Liability; Analyzing Risk Exposures; Current Operations Liability; Manufacturing Process and Operational Hazards.

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Question 9

Question Type: MultipleChoice

Which exclusion on the contractors' equipment floater applies to loss or damage caused by breaking through ice or sinking in soft ground?

Options:

A- Territory exclusion
B- Muskeg exclusion
C- Sinkhole exclusion
D- Overloading exclusion

Answer:

B

Explanation:

The correct answer is B. Muskeg exclusion. In contractors' equipment insurance, a contractors' equipment floater is designed to insure mobile equipment such as graders, bulldozers, excavators, loaders, cranes, and similar machinery used away from the insured's premises. However, this coverage contains exclusions because some operating environments create a much higher probability of loss. ''Muskeg'' refers to soft, boggy, unstable ground, often found in marshy or northern terrain. Equipment operating in these conditions can sink, become trapped, or be damaged because the ground cannot support its weight. Similarly, operating over frozen surfaces creates a special hazard where equipment may break through ice. The muskeg exclusion is specifically intended to remove or restrict coverage for losses caused by sinking in soft ground or breaking through ice. The territory exclusion deals with where the equipment is used geographically; the sinkhole exclusion relates to collapse of land due to underground voids; and overloading concerns excessive weight or strain. Course topic reference: Contractors; Property Coverages; Contractors' Equipment Floaters; Policy Exclusions.

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Question 10

Question Type: MultipleChoice

Which phrase will best help an intermediary close a sale, after presenting the proposal to a client?

Options:

A- ''Do you have any objections?''
B- ''Which day would you like the payment plan to start?''
C- ''Would you like to insure with our company?''
D- ''How does our proposal compare to your current coverage?''

Answer:

B

Explanation:

The correct answer is B. ''Which day would you like the payment plan to start?'' This is an example of an assumptive close. After the intermediary has analyzed the client's needs, presented the insurance proposal, answered questions, and explained the value of the recommendation, the next step is to move the client toward a decision. An effective closing question should assume that the client is ready to proceed and should guide the discussion toward implementation. Asking which day the payment plan should start moves the conversation from general consideration to practical execution. Option A is weak because asking about objections may invite resistance and shift the client into a negative frame. Option C is a direct yes-or-no question, which gives the client an easy opportunity to decline. Option D may be useful during the discussion stage, but it does not close the sale. In commercial insurance, closing professionally means helping the client act on a suitable recommendation, not pressuring them. The payment-plan question is practical, clear, and action-oriented. Course topic reference: Introduction to Commercial Insurance; Client Communication; Sales Process; Presenting and Closing Proposals.

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Question 11

Question Type: MultipleChoice

A broker is preparing to meet with a prospective client, Queen Ice Cream, who manufactures and distributes ice cream to five different provinces. What can the broker ask to ensure a smooth transition for the client?

Options:

A- How many flavours of ice cream does the client sell?
B- How long has the client been in business?
C- How many competitors are in the market?
D- Do all existing policies expire at the same time?

Answer:

D

Explanation:

The correct answer is D. Do all existing policies expire at the same time? A smooth transition from one insurance program or broker arrangement to another requires careful timing. If the client has several policies with different expiry dates, the broker must plan how to replace, renew, cancel, or align coverage without gaps, overlaps, or missed notice periods. Queen Ice Cream manufactures and distributes products across five provinces, so it may have property, equipment breakdown, commercial general liability, products liability, automobile, cargo, crime, business interruption, and possibly specialty coverage. If these policies expire at different times, the broker must coordinate market submissions and effective dates carefully. Asking about flavours, years in business, and competitors may be useful for underwriting or business understanding, but those questions do not directly ensure a smooth insurance transition. The key transition issue is whether all policies renew together or are staggered. Poor timing can result in uninsured exposures, duplicate premiums, cancellation penalties, or inconsistent limits and conditions. Course topic reference: Introduction to Commercial Insurance; Client Onboarding; Renewal Coordination; Policy Expiry Dates; Commercial Insurance Program Transition.

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