

# Level 1 Practice Questions

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This set of practice questions includes both multiple-choice and short-answer formats to support various learning preferences and prepare you comprehensively for different scenarios.

**Hint: please pick the BEST answer**

1. Consideration is...
  - a. The law of insurance
  - b. A promise between parties
  - c. A contract's binding force
  - d. An exchange of something of value
2. A stock company is...
  - a. A company that invests in other companies
  - b. A company owned by stockholders who provide the capital to start and run the company
  - c. Is owned by customers of the company
  - d. A company that owns livestock
3. The most basic form of coverage is coverage from fire losses. The Insurance Act in Canada also ensures there is coverage for...
4. The difference between pure and speculative risk is...
  - a. Speculative risk is insurable but pure risk is not
  - b. Speculative risk means that there is a chance to gain or lose whereas one can only lose with pure risk
  - c. Speculative risk means that there is only the chance to lose whereas pure risk means you have a chance to win too
  - d. Speculative risk is a term invented by marine insurance companies in 1864
5. A legally enforceable agreement between 2 or more parties is a...
  - a. A contract
  - b. An agreement
  - c. A will
  - d. A contract of consideration
6. What are the 4 methods of dealing with risk?

7. A reduction in value is called a...
  - a. Loss
  - b. Unlucky situation
  - c. Claim
  - d. Transfer
8. What elements must be present to constitute a legal contract?
  - a. Parties to the contract, the contract itself, consideration
  - b. Parties to the contract, a written document, consideration, and legal purpose
  - c. Agreement, consideration, legality of object, legal capacity, genuine intention
  - d. Competent parties, consideration, warranty, and legal purpose
9. The act of intentionally giving up some right or privilege is...
  - a. A representation
  - b. A transfer
  - c. A waiver
  - d. Subrogation
10. Insurance purchased by an insurance company is called
  - a. Reinsurance
  - b. Risk avoidance insurance
  - c. Full protection
  - d. Umbrella insurance
11. The main purpose of an insurance contract is to...
12. A person has a few options when dealing with financial risk: avoidance, retention, control, and transfer. Which is usually the best option for most people?
  - a. Avoidance
  - b. Retention
  - c. Transfer
  - d. Control
13. Who below has the legal capacity to enter into an insurance contract?
  - a. Buck's Consulting
  - b. Black's Hardware
  - c. Tess' Restaurants Ltd.
  - d. Jerry's Convenience

14. A binder is...
- a. An interim contract of insurance
  - b. Permitted for all risks
  - c. Binds the insured to certain terms specified by the insurer
  - d. Binds the insured to certain terms specific by the brokerage
15. What does an insurer issue when both parties have agreed to change certain policy terms?
16. In Canada, the insurance industry is regulated on both a federal and provincial level. The provincial government is responsible for...
- a. Supervising the terms of insurance contracts
  - b. Licensing insurance companies to do business in the province
  - c. None of the above
  - d. Both a and b
17. Solvency means...
18. What are the fiduciary responsibilities of a broker?
19. According to the Insurance Act when does a contract of insurance takes effect?
20. The removal clause is a common policy clause that requires insurers extend coverage to another location where the insured's property is kept when...
21. After the insurer had indemnified the insured for loss, the insurer has the legal right to recover from the at fault party. This right is known as...
22. When is a misrepresentation OK and not considered a violation of your statutory conditions?
23. What is the definition of misrepresentation?
24. Regarding the statutory condition around termination, which 1 of the 4 provisions is wrong?
- a. Your client does not have to give the insurer any prior notice to cancel
  - b. On termination, the insured is not entitled to a premium refund
  - c. The insurer has the right to change the policy administration costs so refunds are calculated on a short-rate basis
  - d. Written request for termination, signed by all parties named on the policy must be provided to insurer
25. What are the consequences of claims fraud when discovered by the insurer? (i.e. if your client claimed something that wasn't actually damaged in the house fire)
26. What is the insurer's duty if they choose to repair property instead of issue a cash payment?
27. An insurance contract is only legally enforceable when it has all of these 3 elements:
28. A broker's most important duty is to...

29. What is the role of the broker in the insurance process?
30. The law requires that brokers exercise “reasonable skill, care and diligence”. If they don’t errors and omissions claims may arise. The main reason for E&O claims is...
31. The primary function of an underwriter is to...
32. When an underwriter looks at the financial and claims history of the applicant, they are looking for...
- a. Morale hazard
  - b. Moral hazard
  - c. Physical hazard
  - d. Risks
33. Insurance policies are designed to insure against “direct damage” only. Yesterday, a fire destroyed 65% of your client’s apartment building. What is the likely not covered in this situation?
34. What is a condition?
35. What is a warranty? And give 1 example of a common warranty.
36. What is the definition of insurance?
37. What is the definition of contract?
38. What is the definition of risk?
39. What is the principle of indemnity?
40. What is an insurance binder?
41. What is an agency agreement?
42. What is a void contract?
43. What is a peril?
44. What is the difference between a direct loss and an indirect loss?
45. What is a valued policy?
46. What is insurable interest?
47. What is utmost good faith?
48. What is a fiduciary?
49. What is the difference between a friendly fire and a hostile fire?
50. What is the difference between pro-rata and short rate forms of premium return calculation?
51. What is the insured’s responsibility when it comes to providing notice of loss?
52. What is proof of loss?
53. What is fraud?

54. What is a deductible and why does it exist?
55. Explain the idea of subrogation.
56. What is considered “personal property”?
57. What is the definition of a vacant property?
58. What is theft?
59. What is an endorsement?
60. What is the difference between criminal law and civil law?
61. What is a tort?
62. Provide 3 examples of tort
63. 3 elements of a tort:
64. Which type of tort is insurable?
65. What is strict liability and when does it apply?
66. What is negligence?
67. There are 4 broad types of people who might seek to enter your premises. What are these 4, define them and explain the duty you owe to each.
68. What is the liability of a landlord in a building with multiple tenancy?
69. How do you determine the liability of a bailee for customer’s goods?
70. Explain the liability of employers for the tort of their employees
71. Explain the concept of general average.
72. Identify 3 categories of risk
73. Explain the statutory condition of salvage.
74. What is a physical hazard and provide 3 examples.
75. A moral hazard is...
76. What is the main difference between “named perils” and “all risk” policies as typically provided by insurers.
77. What are the 3 types of property insured under a commercial property policy?
78. Briefly explain explosion coverage under homeowners form.
79. Briefly explain smoke coverage
80. What do homeowners forms typically exclude in the context of impact by aircraft or land vehicles?
81. What do homeowners forms typically exclude in the context of windstorm and hail?
82. What do homeowners forms typically exclude in the context of theft?
83. What are 5 coverages in broad form that aren’t in named perils forms?

84. What are 5 factors insurers look at to determine the base rate for commercial property?
85. A "building" is defined as...
86. Stock is defined as...
87. What is the formula for calculating co-insurance?
88. What is the reinstatement clause?
89. When can an insurer not subrogate against you?
90. What responsibilities does an insured have under the property protection systems clause?
91. What are 2 key coverages under boiler and machinery (aka equipment breakdown)?
92. Do business interruption policies cover any perils excluded the corresponding property policy?
93. What is the basic difference between the earning form and the profits form?
94. What is bodily injury?
95. What does it mean when an insurer agrees to pay supplementary payments? What is the purpose and give 3 examples.
96. Liability coverages on the homeowners forms do not usually insure damage arising out of business activities, what are the 3 exceptions?
97. Name 3 workers compensation plan benefits:
98. What is an elimination period?
99. Who has insurable interest under Accident & Sickness insurance?
100. Who qualifies as a dependent under travel insurance?

# Answer Key

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1. D
2. B
3. Explosion (of natural, coal or manufactured gas) and lightning (excluding damage to electrical devices)
4. B
5. A
6. Avoidance, control, retention, transfer
7. A
8. C
9. C
10. A
11. Allow the spread of risk
12. C
13. C
14. A
15. An endorsement
16. D
17. The ability of an insurer to pay all insured losses
18. Unearned commissions are to be held in trust and paid back if the policy is cancelled before expiry. Premiums collected must be forwarded to the insurer.
19. 12:01 am standard time at the address of the named insured
20. Necessary Removal (i.e. the insured moved property to protect it from an incoming forest fire)
21. The right of subrogation
22. When it doesn't "hurt" the insurer in some way (i.e. the risk is better than you claimed it was)
23. A misstatement or fraudulent omission of a material fact to the prejudice of the insurer
24. B
25. The claim is VOID
26. When the insurer chooses to repair property, it must give written notice within 30 days of receiving the Proof of Loss
27. Insurable interest, utmost good faith, indemnity

- 28. A broker must always be truthful and disclose all material facts about the client's risk to the insurer
- 29. An intermediary between the client and the insurer
- 30. Failing to identify client's loss exposures and offering adequate coverage
- 31. Select risks that are most likely to be profitable for the insurer
- 32. B
- 33. Loss of rental income
- 34. A requirement to do or not do something
- 35. A promise that something is true and will remain true (i.e. a locked vehicle warranty)
- 36. The undertaking by one person to indemnify another against loss or liability in respect to a certain risk or peril
- 37. An agreement between people to do or not do something
- 38. Chance of financial loss
- 39. The principle of indemnity ensures that people receive the actual amount of their loss – no more, no less.
- 40. A temporary agreement where the insurer agrees to provide certain coverages pending the issuance of a policy
- 41. A contract between the insurer and the brokerage
- 42. A contract where one cannot legally support its intended purpose. In this case, the contract never existed.
- 43. Cause of loss
- 44. A direct loss occurs when a peril directly attacks the object of insurance. Indirect losses are losses that arise as a consequence of a direct loss
- 45. This is where the insured and insurer agree on the cash value of the property. If a loss occurs, this is the amount that would be paid.
- 46. One has insurable interest if they would suffer financially from a loss
- 47. With insurance contracts, you must maintain a higher standard of honesty than with other contracts. This applies to the insured, insurer and the broker.
- 48. Someone who has a special position of trust when handling the affairs or funds of another.
- 49. A friendly fire is a fire contained in its proper receptacle. Once that fire passes outside its boundaries, it becomes a hostile fire. (ie. a spark escapes the fireplace and burns the carpet)



50. Pro-rata means calculating the premium refund by dividing the amount of premium paid by the number of days left remaining on the policy. Short rate is pro-rata minus any administrative charges or cancellation penalty.
51. The insured or his representative must immediately report the loss to the insurer in writing.
52. A formal verification, under oath, of the details and amounts claimed.
53. A deliberate attempt to deceive with the aim of financial gain.
54. The amount the insured is required to absorb for each loss before insurer pays out. A deductible exists to reduce the number of petty claims.
55. When an insurer pays a claim for a loss caused by a 3<sup>rd</sup> party, the insurer is allowed to place itself “into the insured’s shoes” and take on their legal rights (ie. to sue the responsible party).
56. Contents of the dwelling, personal property used by insured while on premises and contents usual to the ownership/maintenance of the dwelling.
57. All occupants have moved out with no intention of returning and no new occupants.
58. All means of taking property without owner’s consent.
59. A written agreement between the insured and the insurer to change some terms of the insurance contract.
60. Criminal law deals with wrongs against society. Civil law is for disputes between individuals/legal entities.
61. A wrong done by another person’s breach of legal duty.
62. Trespass, nuisance, defamation, false arrest, invasion of privacy, or negligence
63. Duty owed, duty breached & damages resulted (proximately)
64. Unintentional torts
65. Strict liability assumes a person is guilty until proven innocent. This typically applies to cases where the person is doing something inherently dangerous.
66. Carelessness: not doing what a reasonable man in the same situation would have done, or doing something a reasonable man would not have done.
67. The types are:
- a. Trespasser: entering without permission from occupier
    - i. Duty owed: no legal duty owed but cannot set traps or cause intentional harm
  - b. Licensee: someone entering for their own purpose with permission from occupier
    - i. Duty owed: warn of any hazards known to occupier that licensee would not expect
  - c. Invitee: invited in for benefit of the occupier
    - i. Duty owed: protect against dangers down or might reasonably discover

- d. Children: protected by law
  - i. Duty owed: premises must be safe from all dangers
- 68. Responsible for common areas
- 69. Under the 2 types of civil law:
  - a. Tort law: must exercise ordinary care
  - b. Contract law: for responsibilities assumed under contract
- 70. Employers are generally liable unless:
  - a. Employees delegated their work without employer's consent
  - b. While on a frolic of their own
  - c. Employee used property without authorization for their own purpose
- 71. Provides payment for ocean marine losses voluntarily incurred to save the entire venture. The parties whose property was saved would contribute to repay the sacrificed party.
- 72. Personal risk, property risk, liability risk
- 73. The insured is legally required to take reasonable steps to protect property from further damage.
- 74. Condition related to premises (construction, occupancy, housekeeping)
- 75. Subjective characteristics of the applicant that could cause a peril
- 76. Named perils cover FSWILLER only. All risks covers all direct losses not excluded.
- 77. Building, stock and equipment
- 78. Covers damage caused by hot water heaters and domestic boilers not due to water hammer
- 79. Covers losses out of sudden, unusual and faulty operation of stationary furnace
- 80. Damaged caused by insureds
- 81. Excludes loss or damage to antennae and satellite dishes.
- 82. Excludes theft by tenant, employee or member of household.
- 83. What are 5 coverages in broad form that aren't in named perils forms?
  - a. Vehicle impact to insured's building when driven by insured
  - b. All sources of smoke damage excluding industrial operations
  - c. Water damage due to freezing or rupturing of water lines
  - d. Theft
  - e. Collapse (excluding earthquake or faulty workmanship)
- 84. Construction, protection, occupancy, location, claims history
- 85. A "building" is defined as...
  - a. Fixed structures

- b. Additions/extensions
  - c. Permanent fittings
  - d. Materials on premises for regular maintenance
  - e. Growing plants inside the building for decoration
86. Stock is defined as...
- a. Merchandise usual to the business & packing/wrapping/advertising materials
87. Did/should x amount of loss
88. Same amount of insurance after the loss as before the loss
89. When you have insurable interest in the property
90. Notify insurer immediately when they: know of an interruption or flaw, when a monitoring/maintenance contract has lapsed, suspension of police services
91. What are 2 key coverages under boiler and machinery (aka equipment breakdown)?
- a. Damage from explosion of boiler/pressure vessel operating at over 15 psi
  - b. Electrical/mechanical breakdown of objects
92. No
93. Earnings form ends when property has been replaced. Profits form ends when income is restored to pre-loss levels.
94. Physical injury associated with external causes
95. Supplementary payments: pays for investigating, settling or defending a claim
- a. Cost of defense
  - b. Reasonable expenses insured incurred to help in investigation and defense
  - c. Court costs
  - d. Interest from date of judgement to payment (based on limit of insurance only)
96. The 3 exceptions:
- a. Personal actions during work not directly related to job
  - b. Rental portions of your home (up to 2 roomers/boarders)
  - c. Temporary or part-time business of an insured person under 21
97. Necessary health care costs, lost earnings, death benefit
98. A period of self-insurance between the start of disability and the start of benefits
99. The insured himself & spouse, employee, child, anyone with pecuniary interest, dependents
100. Anyone under 20 (26 if in college), unmarried, living with and receiving full support from insured. Or anyone with mental or physical deformity.