Exam : **C131**

Title : Advanced Skills for the Insurance Broker and Agent

Version : DEMO

1.A real estate investment trust is a long-term client of Best Brokerage. The REIT intends to tear down one unused warehouse and build an apartment in its place. The risk manager requests insurance coverage for the project, wants to avoid a significant increase in premium, and does not want to include cost overruns.

a) Briefly discuss how the limits of insurance of this project will be determined, and what type of costs are included in the limit.

b) Should the risk manager exclude cost overruns from the limit of insurance? Explain your answer.

see the Explanation for Detailed Solution.

Answer:

The insurance limit should be based on the full completed value of the apartment project, not the value of the old warehouse being demolished. Builders risk insurance must reflect the amount required to repair, replace, or complete the project if an insured loss occurs during construction. The limit should include hard construction costs such as demolition, site preparation, labour, materials, foundations, structural work, mechanical systems, electrical systems, plumbing, roofing, and finishing. It should also consider soft costs where applicable, including architectural fees, engineering fees, permits, legal fees, financing costs, inspection costs, and other professional or project-related expenses. Debris removal, temporary works, escalation, and delay-related costs may also need consideration depending on wording.

The risk manager should not exclude cost overruns simply to reduce premium. That is false economy. Construction projects often exceed original budgets because of material inflation, labour shortages, design changes, delays, supply problems, or unexpected site conditions. If cost overruns are excluded from the insured limit, the REIT may face underinsurance after a serious loss and may have to fund the shortfall itself.

The broker should recommend a realistic limit that includes an allowance for escalation or cost overruns.

Course topic reference: Builders Risk; Property Coverages; Project Limits; Soft Costs; Cost Overruns; Construction Insurance.

2.The question of whether an employee might convert cash or cheques for her own use would be considered when underwriting which policy coverages?

A. Crime

B. Liability

C. Property

D. Business interruption

Answer: A

Explanation:

The correct answer is A. Crime. The phrase “convert cash or cheques for her own use” refers to employee dishonesty, theft, fraud, or misappropriation. These are classic crime insurance exposures. Crime coverage may insure loss of money, securities, or other property resulting from dishonest acts of employees, theft, robbery, burglary, forgery, counterfeit currency, computer fraud, funds transfer fraud, or other crime-related perils, depending on the form. When underwriting crime coverage, the insurer is interested in internal controls, separation of duties, audits, background checks, cash-handling procedures, cheque-signing authority, bank reconciliation, inventory controls, and access to funds. Liability coverage responds to legal liability to third parties, not direct employee theft of the insured’s money. Property insurance generally covers physical loss or damage to insured property from covered perils, but it commonly excludes or limits dishonest acts and money/securities losses. Business interruption covers loss of income following insured physical damage, not employee conversion of cash. The correct underwriting focus is therefore crime coverage. Course topic reference: Automobile, Crime, and Bonds; Crime Insurance; Employee Dishonesty; Money and Securities; Internal Controls.

3.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.
see the Explanation for Detailed Solution.
Answer:
Rebecca must assess Pure Meats as a serious products liability and contamination exposure. She should gather information about the products sold, ingredients, suppliers, processing methods, refrigeration controls, packaging, labelling, expiry dates, storage conditions, transportation methods, and distribution territory. Since the products are sold for resale across Canada, one defective batch could affect many customers and create multiple bodily injury claims.
She should also review food-safety controls: sanitation procedures, employee training, temperature monitoring, batch coding, traceability, quality testing, inspection records, recall plans, regulatory compliance, and supplier agreements. Listeriosis is important because it can cause severe illness or death, making claim severity potentially high. As a new company, Pure Meats may have limited loss history, so underwriters will rely heavily on its controls and management competence.
Rebecca should recommend a commercial general liability policy with strong products liability coverage. She should also recommend product recall or contamination coverage, because a standard CGL may defend and indemnify against third-party bodily injury or property damage claims, but it may not fully cover recall expenses, public notices, testing, disposal, crisis management, or brand rehabilitation.
Course topic reference: Manufacturers, Distributors, and Freight Forwarders; Products Liability; Food Contamination; Product Recall; Underwriting Considerations.

4.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?
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.

5.Which clause is a refusal to accept liability for damages that might occur?
A. Disclaimer
B. Indemnity provision
C. Risk retainer
D. Hold harmless agreement
Answer: A
Explanation:
The correct answer is A. Disclaimer. A disclaimer is a statement or clause by which a party refuses, limits, or denies responsibility for certain losses, damages, representations, or outcomes. In commercial insurance and risk management, disclaimers are often used in contracts, websites, proposals, reports, signage, warranties, and service agreements to clarify that one party does not accept liability for specific events or consequences. A disclaimer does not automatically eliminate all legal liability, because courts may examine fairness, wording, notice, statutory obligations, and public policy. However, its purpose is still to refuse or restrict liability. An indemnity provision is different: it requires one party to compensate another for certain losses. A hold harmless agreement is also a contractual risk transfer clause where one party agrees not to hold another responsible or agrees to protect them from claims. "Risk retainer" is not the correct contractual clause; retention means keeping the financial consequence of risk rather than transferring it. The wording "refusal to accept liability" directly points to a disclaimer. Course topic reference: Risk Management; Selecting Risk Techniques; Contractual Risk Transfer; Disclaimers and Liability Clauses.