

IIC C11

Principles and Practice of Insurance

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Question: 1

Which financial outcome would be expected when engaging in a speculative risk?

- A. No possibility of loss
- B. No possibility of gain
- C. Possibility of gain only
- D. Possibility of either gain or loss

Answer: D

Explanation:

In insurance terminology, a speculative risk is a situation where there is a possibility of either financial gain or financial loss, depending on how events unfold. This is what makes it different from a pure risk, where the only possible outcomes are loss or no loss (but never a profit).

Examples of speculative risk include investing in the stock market, starting a business, or buying foreign currency. In each of these situations, you may end up with a profit, break even, or suffer a loss.

Because speculative risks involve the potential for profit, they are generally not insurable.

Insurance is designed to respond to pure risks, such as the risk of fire damaging a building, or a car accident causing injury or property damage. In those cases, there is no opportunity for financial gain from the event itself—only the chance of economic loss or no loss at all.

Therefore, the defining characteristic of speculative risk, and the correct answer to this question, is the possibility of either gain or loss, which is captured by option D.

Question: 2

Who has authority from a company to manage that company's business within their territory, to appoint other agents, and to settle claims?

- A. Analyst
- B. Wholesaler
- C. General agent
- D. Operating agent

Answer: C

Explanation:

A general agent is an individual or business entity that receives broad authority from an insurer to operate on its behalf within a designated geographic territory. This authority typically includes the power to manage the insurer's business, appoint sub-agents, oversee production, and settle certain types of claims within their delegated limits. In the traditional agency system in Canada, general agents act as intermediaries between the insurer and local agents, ensuring proper distribution of policies and adherence to underwriting rules.

This role is distinct from analysts, who do not hold managerial or appointment authority, and from wholesalers, whose function is typically limited to distributing insurance products to brokers rather than supervising an insurer's operations. Operating agents may have administrative duties but do not hold the broad binding and claim-settlement authority that defines a general agent. Thus, the only option that correctly matches the described authority structure is General agent.

Question: 3

Karl recently purchased a house in Winnipeg. Prior to the purchase he asked if the house had termites. The house was infested, but the seller falsely stated there were none. After signing the contract, Karl discovered the infestation. Which element makes the purchase contract voidable?

- A. Undue influence
- B. Mistake about assumptions
- C. Innocent misrepresentation
- D. Fraudulent misrepresentation

Answer: D

Explanation:

A contract becomes voidable when one party is induced to enter it through fraudulent misrepresentation. Fraudulent misrepresentation occurs when a party knowingly makes a false statement, intending to mislead the other party, and the misled party relies on that statement when entering the contract. In this scenario, the seller knew the house had termites but intentionally misrepresented the truth when questioned by Karl. This is a deliberate falsehood, fulfilling all elements of fraud: false representation, knowledge of falsity, intent to induce reliance, actual reliance, and resulting detriment.

Undue influence involves pressure or dominance, which is not present. A mistake about assumptions only applies when both parties are mistaken in good faith about a fundamental fact—here the seller acted deliberately. Innocent misrepresentation involves an unintentional error, but the scenario explicitly describes intentional deception. Thus, the correct legal classification is fraudulent misrepresentation.

Question: 4

Which legal term describes the time in which a claim may be brought by the policyholder?

- A. Waiver
- B. Release
- C. Non-waiver
- D. Prescription

Answer: D

Explanation:

Prescription refers to the legally defined period during which an insured is permitted to initiate legal action to enforce a claim under the insurance contract. Once the prescriptive period expires, the insured loses the legal right to pursue the claim, even if the claim itself is otherwise valid. This protects insurers from indefinite liability and encourages timely reporting and settlement of claims.

A waiver is the voluntary relinquishment of a known right. A release is a document signed by the insured surrendering further claims, usually after settlement. A non-waiver agreement preserves the insurer's right to investigate a claim without admitting liability. None of these terms relate to the legal time limit for bringing an action. Therefore, the correct term describing the time frame for commencing legal proceedings is prescription.

Question: 5

Which type of clause grants additional protection to the entity that has a registered interest on real property?

- A. Bailee clause
- B. Mortgage clause
- C. Lienholder clause
- D. Additional Interest clause

Answer: B

Explanation:

A mortgage clause is specifically designed to protect the financial institution (the mortgagee) that holds a registered interest in real property. Under this clause, the mortgagee receives certain rights independent of the insured. For example, even if the insured voids the policy through misrepresentation, material change, or failure to comply with policy conditions, the mortgagee may still retain coverage so long as they meet their obligations, such as paying premiums or notifying the insurer of increased hazards.

A bailee clause relates to goods in the custody of another party, not real property. A lienholder clause may apply to movable property like vehicles but does not grant the same broad, independent protection provided to mortgagees. An additional interest clause merely notifies the insurer of a party's interest but does not extend full rights. Therefore, the clause that

ensures robust contractual protection to an entity with a registered interest in real property is the mortgage clause.

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