

EXAM 6 – CANADA, SPRING 2015

7. (1 point)

a. (0.25 point)

Briefly discuss whether a life insurance policy is considered an indemnity policy.

b. (0.5 point)

Identify two conditions that an insured must establish to be entitled to recovery under an indemnity insurance contract.

c. (0.25 point)

Briefly describe how a “valued policy” differs from a typical insurance policy.

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EXAM 6C SPRING 2015 SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 7	
TOTAL POINT VALUE: 1	LEARNING OBJECTIVE: A3
SAMPLE ANSWERS	
Part a: 0.25 point	
Any one of the following responses received full credit:	
<ul style="list-style-type: none"> • A life insurance policy is not considered an indemnity policy because loss of one's life is not capable of translation into a pecuniary loss. • A life insurance policy is not considered an indemnity policy because life insurance is a policy upon a contingency, as death cannot be described as an adverse event. • A life insurance policy is not considered an indemnity policy because it does not compensate for an economic loss. • Not considered an indemnity policy since cannot indemnify the loss of life. • No it benefits survivors but does not compensate for loss. • No because it will not restore something as it was before. • Life insurance is not indemnity. It is a valued policy conditional on the event of death. 	
Part b: 0.5 point	
The optimal solution based on the readings is the following:	
<ul style="list-style-type: none"> • The happening of some event by reason of which the insurer's liability arises and the loss occasioned to the insured by the happening of the event. 	
Other responses accepted are:	
<ul style="list-style-type: none"> • Must suffer a loss and cause of loss must be an insured peril. • Must prove that the insured event occurred and the event caused the insured to suffer a loss. • The covered event must happen and there must be a financial loss associated with that event to the insured. • Insured event has occurred and caused financial loss to insured. • Must prove that insured suffered a financial loss for a covered event under the indemnity contract. 	
Part c: 0.25 point	
Any one of the answers below received full credit:	
<ul style="list-style-type: none"> • A valued policy differs from a normal insurance contract in that the insured does not need to prove the amount of his loss. In this case, a contract has a predetermined indemnity amount which both the insured and the insurer have agreed to. • Valued policy differ as a preset amount is paid when the insured event results in a loss to the policyholder. The payment is not dependent on the actual size of the loss. • Valued policy doesn't need to prove the extent of the loss, just the existence of loss to be entitled to coverage. • A valued policy is an indemnity policy where determining the amount of the loss is replaced with a fixed sum. • The amount recover from loss is predetermined but must still show the loss come from a covered event. • The amount of indemnity of loss is set in advance. 	

EXAM 6C SPRING 2015 SAMPLE ANSWERS AND EXAMINER'S REPORT

EXAMINER'S REPORT

The candidate was expected to know the difference between an indemnity and a valued policy.

More than 50% of the candidates were not able to explain why a life insurance policy is not an indemnity policy. Most candidates were able to provide at least one condition that an insured must establish to be entitled to recovery under an indemnity insurance contract. Most candidates scored full marks on part c and were able to describe how a valued policy differs from a typical insurance policy.

Part a

The candidate was expected to know that a life insurance policy is not an indemnity policy and provide an explanation. Most candidates knew that a life insurance policy is not an indemnity policy but did not provide sufficient or appropriate explanation as to the reason.

Some candidates thought life insurance is an indemnity policy.

Part b

The candidate was expected to know the two conditions that must be established for an insured to be entitled to recovery under an indemnity insurance contract. Most candidates were able to provide one reason. Some candidates provided two conditions that were in effect the same condition stated differently.

Part c

This part was very well answered by most candidates.