

# Canadian Accredited Insurance Broker (CAIB) One Practice Exam (Sample)

## Study Guide



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**SAMPLE**

## **Questions**

- 1. What constitutes insurable interest?**
  - A. A title of ownership on a property**
  - B. A financial loss that would be suffered from a loss**
  - C. An emotional attachment to an asset**
  - D. Having rights to transfer the policy**
- 2. What is the main function of a claims adjuster?**
  - A. To analyze risk and set premiums**
  - B. To handle and investigate insurance claims**
  - C. To provide financial advice to clients**
  - D. To manage marketing strategies**
- 3. What does an insurer issue when both parties agree to a change in policy terms?**
  - A. A cancellation notice**
  - B. An endorsement**
  - C. A claim form**
  - D. A binder amendment**
- 4. What is an agency agreement in insurance?**
  - A. A contract between the insurer and the brokerage**
  - B. A legal document outlining client obligations**
  - C. A policy document that details coverage**
  - D. An agreement between clients and brokers**
- 5. In what scenario would a fire become classified as hostile?**
  - A. When it is contained within a fireplace**
  - B. When it spreads beyond its intended boundaries**
  - C. When it occurs outdoors only**
  - D. When it is ignited by natural causes**
- 6. What is a common characteristic of liability insurance?**
  - A. It covers property damage related to personal belongings**
  - B. It protects against lawsuits for negligence**
  - C. It is only applicable to commercial enterprises**
  - D. It has no limitations in coverage**

- 7. What is a legally enforceable agreement between two or more parties called?**
- A. A contract**
  - B. An agreement**
  - C. A will**
  - D. A contract of consideration**
- 8. What enhances a broker's credibility in the eyes of clients?**
- A. Professional designations and certifications**
  - B. A wide range of insurance products**
  - C. Strong social media presence**
  - D. Favorable reviews online**
- 9. What are the three essential elements for a legally enforceable contract?**
- A. Insurable interest, utmost good faith, indemnity**
  - B. Written agreement, legal representation, mutual consent**
  - C. Clear terms, signed documentation, witness validation**
  - D. Financial terms, delivery conditions, breach notification**
- 10. Which type of tort is typically insurable?**
- A. Intentional torts**
  - B. Negligence**
  - C. Unintentional torts**
  - D. Civil torts**

## **Answers**

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1. B
2. B
3. B
4. A
5. B
6. B
7. A
8. A
9. A
10. C

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## **Explanations**

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## 1. What constitutes insurable interest?

- A. A title of ownership on a property
- B. A financial loss that would be suffered from a loss**
- C. An emotional attachment to an asset
- D. Having rights to transfer the policy

Insurable interest is a fundamental concept in insurance that ensures a policyholder will suffer a financial loss if the insured event occurs. Specifically, it refers to the financial stake or investment a person has in the property or life of another party that justifies taking out an insurance policy. When a person has insurable interest, it means that they stand to lose something of value—this could be financial, such as money tied up in property, or it could involve the financial consequences arising from the loss of a life whose passing might impact them financially, such as a spouse or business partner. This crucial element helps prevent insurance from being used as a gambling tool and ensures that the policyholder has a legitimate interest in the safety and value of the asset or individual insured. In contrast, having a title of ownership alone might suggest some degree of interest but does not inherently confirm that the loss would cause financial harm. Emotional attachment might signify a personal connection to the asset, but it does not address the financial implications relevant to insurance. Finally, having rights to transfer the policy doesn't directly relate to whether a financial loss would be suffered, which is the core definition of insurable interest.

## 2. What is the main function of a claims adjuster?

- A. To analyze risk and set premiums
- B. To handle and investigate insurance claims**
- C. To provide financial advice to clients
- D. To manage marketing strategies

The main function of a claims adjuster is to handle and investigate insurance claims. This role involves assessing the details surrounding a claim, including gathering relevant information, interviewing witnesses, evaluating damages, and determining the rightful compensation according to the policy provisions. Claims adjusters play a critical role in ensuring that claims are processed accurately and fairly, which helps to maintain the integrity of the insurance process and fosters trust between the insurer and the insured. In contrast, analyzing risk and setting premiums is a function typically associated with underwriters, who evaluate potential policyholders to determine the risks involved and the appropriate pricing for coverage. Providing financial advice to clients is more aligned with financial planners or advisors, who specialize in giving personal finance guidance. Managing marketing strategies falls under the purview of marketing professionals within insurance companies, focused on promoting products and attracting new business. Each of these roles is important in the insurance industry, but they serve distinct purposes separate from the responsibilities of a claims adjuster.

### **3. What does an insurer issue when both parties agree to a change in policy terms?**

- A. A cancellation notice**
- B. An endorsement**
- C. A claim form**
- D. A binder amendment**

When both parties agree to a change in policy terms, an insurer issues an endorsement. An endorsement is a document that alters the terms of an existing insurance policy, modifying coverage or conditions as agreed upon by the insurer and the policyholder. This can include adding or removing coverage, changing deductibles, adjusting policy limits, or updating named insureds. Endorsements are essential because they provide a formal record of the adjustments made, ensuring that both the insurer and the insured have a clear understanding of the new terms. This clarity helps prevent disputes in the future regarding what coverage is provided under the policy. The other options listed do not apply in this context. A cancellation notice relates to terminating a policy rather than modifying it. A claim form is used to report a loss and initiate the claims process, not to change policy terms. A binder amendment pertains to temporary coverage agreements that may also change terms, but it is less common than endorsements as a method of updating insurance policy terms. Therefore, the endorsement is the most appropriate answer in the context of modifying policy agreements.

### **4. What is an agency agreement in insurance?**

- A. A contract between the insurer and the brokerage**
- B. A legal document outlining client obligations**
- C. A policy document that details coverage**
- D. An agreement between clients and brokers**

An agency agreement in insurance refers to a contract between the insurer and the brokerage. This document establishes the relationship between the two parties, delineating the roles and responsibilities of the brokerage as an intermediary between clients and the insurer. It outlines the authority of the brokerage in terms of representing the insurer, selling policies, and servicing clients. This agreement is crucial for ensuring that both parties understand their rights and obligations, which helps in maintaining compliance with regulations and industry standards. The other options do not accurately capture the essence of an agency agreement. A legal document outlining client obligations would pertain more to insurance policies or contracts between brokers and their clients rather than the relationships established within the industry itself. A policy document that details coverage serves to inform clients about their insurance protections but is not relevant to the agency relationship. An agreement between clients and brokers would speak more to the terms under which a broker works with a client, but it does not reflect the direct contractual arrangement between a broker and the insurer, which is fundamental to understanding an agency agreement.

**5. In what scenario would a fire become classified as hostile?**

- A. When it is contained within a fireplace**
- B. When it spreads beyond its intended boundaries**
- C. When it occurs outdoors only**
- D. When it is ignited by natural causes**

A fire is classified as hostile when it spreads beyond its intended boundaries. This definition highlights the critical factor of containment; a fire that remains within a designated area, such as a fireplace or controlled burn, does not pose a threat to surrounding property or lives. However, once a fire escapes its intended boundaries, it can cause significant damage, endanger lives, and necessitate emergency response efforts. The other scenarios do not meet the criteria for a hostile fire. For instance, if a fire is contained within a fireplace, it is considered controlled and safe. A fire occurring outdoors is not inherently hostile unless it spreads uncontrollably; thus, the location alone does not determine whether it is hostile. Similarly, fires ignited by natural causes, like lightning strikes, can still be managed and contained; they only become hostile if they exceed control measures. Therefore, the essence of classifying a fire as hostile hinges primarily on its containment and the potential risk it poses once it escapes predetermined boundaries.

**6. What is a common characteristic of liability insurance?**

- A. It covers property damage related to personal belongings**
- B. It protects against lawsuits for negligence**
- C. It is only applicable to commercial enterprises**
- D. It has no limitations in coverage**

Liability insurance is primarily designed to protect individuals and businesses from claims involving negligence that results in bodily injury or property damage to third parties. This type of insurance provides coverage for legal defense costs and any settlements or judgments that might arise from lawsuits. It essentially helps policyholders manage the financial risks associated with being deemed responsible for causing harm to others. By offering coverage against lawsuits, liability insurance plays a critical role in safeguarding the financial well-being of those who might otherwise face significant expenses and legal obligations. In contrast, covering property damage related to personal belongings is not a characteristic of liability insurance but rather pertains to property insurance. Limiting the application of liability insurance solely to commercial enterprises is misleading, as it is applicable to individuals as well. Lastly, the assertion that liability insurance has no limitations in coverage is inaccurate; in fact, policies typically have specific exclusions, limits, and conditions that define the extent of coverage.

**7. What is a legally enforceable agreement between two or more parties called?**

- A. A contract**
- B. An agreement**
- C. A will**
- D. A contract of consideration**

A legally enforceable agreement between two or more parties is recognized as a contract. A contract represents a mutual understanding and commitment that is enforced by law. To qualify as a contract, the agreement typically includes essential elements such as an offer, acceptance, consideration, and the intention to create legal relations. This makes contracts a fundamental element in business and legal transactions, providing security and clarity for the parties involved. An agreement, while it may signify a mutual understanding, does not necessarily encompass the legal enforceability that characterizes a contract. A will, on the other hand, is a legal document that specifies how an individual's assets should be distributed upon their death, which is not applicable in the context of enforceable agreements between parties during their lifetime. Regarding a contract of consideration, although consideration is an essential part of a contract, the term itself does not encompass the entirety of what constitutes a legally enforceable agreement. Thus, the correct response is that a legally enforceable agreement is specifically a contract.

**8. What enhances a broker's credibility in the eyes of clients?**

- A. Professional designations and certifications**
- B. A wide range of insurance products**
- C. Strong social media presence**
- D. Favorable reviews online**

Professional designations and certifications significantly enhance a broker's credibility in the eyes of clients for several reasons. Firstly, these credentials reflect a broker's commitment to their profession, indicating that they have undergone rigorous training and education necessary to acquire specialized knowledge in insurance. This expertise assures clients that the broker is knowledgeable and capable of providing informed advice tailored to their specific needs. Moreover, possessing recognized professional designations such as the CAIB or other qualifications demonstrates adherence to industry standards and ethical practices, which can instill trust and confidence in clients. Clients are more likely to feel assured that they are receiving well-informed guidance and advocacy when dealing with insurance matters from someone who is certified and respected within the industry. In contrast, while a wide range of insurance products may be beneficial, it does not directly enhance a broker's personal credibility. A strong social media presence can help in marketing and outreach but doesn't inherently speak to a broker's qualifications or expertise. Favorable online reviews can influence potential clients but might not always guarantee the professional qualifications of the broker. Therefore, professional designations and certifications provide the most substantial foundation for establishing credibility.

**9. What are the three essential elements for a legally enforceable contract?**

- A. Insurable interest, utmost good faith, indemnity**
- B. Written agreement, legal representation, mutual consent**
- C. Clear terms, signed documentation, witness validation**
- D. Financial terms, delivery conditions, breach notification**

The three essential elements for a legally enforceable contract include offer, acceptance, and consideration. While your answer points to concepts pertinent to insurance contracts, it does not specify the foundational elements of contract law in general. In the context of insurance, insurable interest means that the insured must benefit from the preservation of the subject of insurance, and utmost good faith refers to the expectation that both parties will act honestly and disclose all relevant information. Indemnity involves reimbursing the insured for losses in accordance with the policy terms. These principles guide the execution of insurance contracts but are not the fundamental components of any legal contract. For a contract to be legally enforceable in general legal terms, it must consist of a clear offer, acceptance of that offer, and consideration (something of value exchanged between the parties). Understanding these core principles is crucial for assessing the validity of any contractual agreement, including but not limited to insurance contracts.

**10. Which type of tort is typically insurable?**

- A. Intentional torts**
- B. Negligence**
- C. Unintentional torts**
- D. Civil torts**

Negligence, commonly classified as an unintentional tort, is typically insurable because it arises from a failure to take reasonable care, resulting in harm or injury to another party. Insurance policies are designed to cover financial losses that arise from such unintended actions, allowing individuals and businesses to protect themselves from potential claims. In contrast, intentional torts, which involve deliberate actions causing harm (such as assault or theft), are generally not insurable due to the nature of the actions being willfully harmful. Civil torts encompass a broad range of wrongful acts, including both intentional and unintentional acts, but not all civil torts are insurable. Therefore, the focus on negligence as an unintentional tort makes it the most aligned with the concepts found in insurance coverage, thus making it the correct answer.