

# Registered Insurance Brokers of Ontario (RIBO) Level 2 Practice Exam (Sample)

## Study Guide



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**SAMPLE**

## **Questions**

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- 1. What is one recommended property extension for commercial properties?**
  - A. Fire coverage**
  - B. Debris removal**
  - C. Basic liability**
  - D. Temporary relocation coverage**
- 2. Which statement best describes a claims-made policy?**
  - A. It covers claims occurring at any time**
  - B. It applies only to claims made during the policy period**
  - C. It offers higher policy limits for coverage**
  - D. It is cheaper than occurrence policies**
- 3. When analyzing risk for a contractor, why is loss experience relevant?**
  - A. It predicts future profitability**
  - B. It determines the type of insurance needed**
  - C. It assesses past operational efficiency**
  - D. It informs the contractor about market conditions**
- 4. How does long-term care insurance generally benefit policyholders?**
  - A. By covering surgical procedures**
  - B. By assisting with daily living activities due to chronic conditions**
  - C. By offering regular health checkups**
  - D. By providing life insurance benefits**
- 5. What does "proof of loss" mean in the claims process?**
  - A. Verification of premium payments**
  - B. Documentation submitted to substantiate a claim**
  - C. A record of past claims by the insured**
  - D. A policy evaluation report by the insurer**

- 6. What is the benefit of Profits Coverage in Business Interruption Insurance?**
- A. Coverage ends when repairs are complete**
  - B. Designed for businesses that can quickly resume operations**
  - C. Covers losses if key customers leave after reopening**
  - D. Excludes payroll in calculations**
- 7. How are insurance premiums typically determined?**
- A. Based on applicant's age and gender**
  - B. Based on risk assessment, coverage amount, and underwriting guidelines**
  - C. Based on a fixed rate set by the insurer**
  - D. Based on geographic location only**
- 8. In property insurance, what does "co-insurance" mean?**
- A. A requirement to insure property for its total value**
  - B. A clause that requires the insured to maintain a certain percentage of coverage**
  - C. An additional payment to the insurer during a claim**
  - D. A method for calculating policy deductibles**
- 9. What does the "aggregate limit" signify in liability insurance?**
- A. The total limit of claims against one individual**
  - B. The maximum amount payable for all claims in a policy term**
  - C. The average cost of claims in the industry**
  - D. The minimum claims required for liability coverage**
- 10. What does "premium finance" refer to?**
- A. The repayment plan for insurance claims**
  - B. Financing options available to policyholders to pay insurance premiums**
  - C. The method of calculating premium increases**
  - D. A type of investment made by insurance companies**

## **Answers**

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

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## **Explanations**

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**1. What is one recommended property extension for commercial properties?**

- A. Fire coverage**
- B. Debris removal**
- C. Basic liability**
- D. Temporary relocation coverage**

Debris removal coverage is a recommended property extension for commercial properties because it ensures that a business can manage the costs associated with the removal of debris from a site after a loss. When a commercial property suffers damage due to a covered peril, there often is a significant amount of debris that must be cleared away before repairs can begin. This coverage is critical because it addresses the costs of removing not just the damaged property but also any unwanted materials that may hinder the restoration process. Without debris removal coverage, businesses might face substantial out-of-pocket expenses that could impact their ability to recover from a loss efficiently. While fire coverage, basic liability, and temporary relocation coverage are also important in their own rights, they serve different purposes. Fire coverage protects against losses from fire, basic liability covers legal responsibilities toward third parties, and temporary relocation coverage helps businesses cover extra expenses if they need to move to a different location while repairs are being made. However, debris removal specifically addresses a direct expense that arises in the aftermath of a loss, making it a practical and essential extension for commercial properties.

**2. Which statement best describes a claims-made policy?**

- A. It covers claims occurring at any time**
- B. It applies only to claims made during the policy period**
- C. It offers higher policy limits for coverage**
- D. It is cheaper than occurrence policies**

A claims-made policy is specifically designed to provide coverage for claims that are made during the active policy period, regardless of when the incident that led to the claim occurred. This means that as long as the claim is reported to the insurer while the policy is in effect, it will be covered, even if the related incident happened before the policy was purchased, as long as it falls within the retroactive date specified in the policy. This type of policy structure allows both insurers and insureds to understand their liabilities more clearly, as it confines the coverage to incidents reported during the designated timeframe. It is crucial for businesses and professionals, particularly in fields such as healthcare and legal services, where claims can arise long after the services were provided. In contrast, options that suggest coverage for claims occurring at any time or offering higher limits do not accurately reflect the nature of claims-made policies. Claims-made policies do not inherently provide higher policy limits, and while they may offer lower premiums compared to occurrence policies, this is not a defining characteristic of their design. The distinctiveness of claims-made policies lies in their stipulation that coverage is based on when claims are made rather than when the events took place.

**3. When analyzing risk for a contractor, why is loss experience relevant?**

- A. It predicts future profitability**
- B. It determines the type of insurance needed**
- C. It assesses past operational efficiency**
- D. It informs the contractor about market conditions**

Loss experience is highly relevant when analyzing risk for a contractor because it helps determine the type of insurance needed for that contractor's specific operations and risks. By reviewing past loss experiences, insurers can identify trends related to particular types of claims, including their frequency and severity. For example, if a contractor has a history of significant losses related to liability claims, this indicates a need for higher coverage limits or specific endorsements to address those potential exposures. Understanding loss experience enables insurers and brokers to tailor insurance policies that are adequately aligned with the contractor's risk profile. This can lead to a more precise coverage that not only meets regulatory requirements but also ensures the contractor is protected against the specific risks they face, ultimately supporting the contractor's operational stability and growth.

**4. How does long-term care insurance generally benefit policyholders?**

- A. By covering surgical procedures**
- B. By assisting with daily living activities due to chronic conditions**
- C. By offering regular health checkups**
- D. By providing life insurance benefits**

Long-term care insurance primarily benefits policyholders by assisting with daily living activities due to chronic conditions. This type of insurance is specifically designed to cover services that individuals may need when they can no longer perform basic functions of daily life, such as bathing, dressing, eating, and mobility. As people age or if they develop chronic illnesses or disabilities, they may require assistance that is not typically covered by standard health insurance or Medicare. Long-term care insurance comes into play by providing financial support for both in-home care and facility-based care, enabling individuals to maintain a level of independence while receiving the necessary support for their daily activities. In contrast, other options such as covering surgical procedures, offering regular health checkups, and providing life insurance benefits do not align with the core purpose of long-term care insurance. Those aspects are typically managed by health insurance or life insurance policies, rather than long-term care plans, which focus specifically on support for daily living activities.

**5. What does "proof of loss" mean in the claims process?**

- A. Verification of premium payments**
- B. Documentation submitted to substantiate a claim**
- C. A record of past claims by the insured**
- D. A policy evaluation report by the insurer**

In the claims process, "proof of loss" specifically refers to the documentation that an insured party submits to substantiate their claim after a loss has occurred. This usually includes details of the incident that caused the loss, as well as any evidence supporting the damages incurred, such as photographs, receipts for repairs, or other relevant documents. Providing proof of loss is a critical step, as it allows the insurance company to assess the validity of the claim and determine the appropriate compensation based on the policy coverage. Verification of premium payments, a record of past claims by the insured, and a policy evaluation report do not serve the direct purpose of substantiating an individual claim, making them irrelevant to the definition of proof of loss. Understanding this concept is essential for both clients and brokers in managing the claims process effectively.

**6. What is the benefit of Profits Coverage in Business Interruption Insurance?**

- A. Coverage ends when repairs are complete**
- B. Designed for businesses that can quickly resume operations**
- C. Covers losses if key customers leave after reopening**
- D. Excludes payroll in calculations**

Profits Coverage in Business Interruption Insurance is designed to protect businesses from the loss of income when they are unable to operate as a result of a covered peril, such as fire or natural disaster. One significant benefit of this coverage is that it extends to losses related to key customers. If a business reopens after a business interruption but struggles to regain its customer base, resulting in financial losses, Profits Coverage would provide compensation for those lost profits. This provision is crucial because the financial impact of losing key clients can be substantial, and this coverage helps mitigate that risk. Other aspects such as the duration of coverage and the nature of operations following an incident are important, but they do not specifically address the additional challenges that businesses face post-reopening, like customer retention. This makes the correct answer particularly relevant to businesses looking to safeguard against such risks.

## 7. How are insurance premiums typically determined?

- A. Based on applicant's age and gender
- B. Based on risk assessment, coverage amount, and underwriting guidelines**
- C. Based on a fixed rate set by the insurer
- D. Based on geographic location only

Insurance premiums are primarily determined through a comprehensive evaluation of the risks associated with the insured party, the desired coverage amount, and adherence to the underwriting guidelines set by the insurer. This process involves a detailed risk assessment, which helps insurers identify the likelihood of a claim being made based on various factors such as health, claims history, occupation, and lifestyle choices, among others. The coverage amount selected by the policyholder also plays a critical role in premium determination. Higher coverage amounts generally lead to higher premiums, as there is a greater risk exposure for the insurer. Underwriting guidelines provide standardized criteria that insurers use to evaluate the information provided by applicants, ensuring that premiums reflect the potential exposure and risk accurately. In contrast, while factors like age and gender can influence premiums, they do not constitute the full scope of how premiums are calculated. A fixed rate set by the insurer would not permit for the adjustments needed to account for different risk profiles among applicants. Geographic location may influence premiums, but it is only one of many factors considered in a holistic approach to risk assessment and premium determination. Thus, highest accuracy in premium setting requires a multi-faceted analysis, making the second option the most comprehensive and correct.

## 8. In property insurance, what does "co-insurance" mean?

- A. A requirement to insure property for its total value
- B. A clause that requires the insured to maintain a certain percentage of coverage**
- C. An additional payment to the insurer during a claim
- D. A method for calculating policy deductibles

In property insurance, "co-insurance" refers to a clause that necessitates the insured to maintain a minimum percentage of coverage on their property relative to its total value. This is commonly expressed as a percentage, such as 80%, 90%, or 100%. The purpose of co-insurance is to encourage policyholders to insure their property for an adequate amount, reflecting its actual value. If the property is underinsured according to the stipulated co-insurance percentage at the time of a loss, the insurer can reduce the payout proportionately. For instance, if a property is valued at \$500,000 and the co-insurance requirement is set at 80%, the property owner should maintain a minimum coverage of \$400,000. If they only insure it for \$300,000 and then suffer a loss, their claim would be settled based on the ratio of the amount insured to the amount they should have insured. This mechanism helps to keep premiums fair and ensures that the insured does not benefit excessively from underinsuring their property. Understanding co-insurance is crucial for both brokers and clients, as it directly impacts the adequacy of the coverage and the financial outcomes after a loss.

**9. What does the "aggregate limit" signify in liability insurance?**

- A. The total limit of claims against one individual**
- B. The maximum amount payable for all claims in a policy term**
- C. The average cost of claims in the industry**
- D. The minimum claims required for liability coverage**

The definition of "aggregate limit" in liability insurance refers to the maximum amount that an insurer will pay for all covered claims during a specified policy term, typically a year. This limit is crucial because it acts as a cap on the insurer's exposure for multiple claims arising from a single policy. Once the aggregate limit is reached, the insurance company will not be liable to pay any further claims, regardless of their amount or nature, unless a new policy term begins or additional coverage is purchased.

Understanding this concept is vital for both insurers and insureds, as it influences how coverage is structured and how risks are assessed, ensuring that policyholders can adequately protect themselves against multiple claims while recognizing the limits of their coverage. This aspect is particularly important for businesses that might face numerous claims throughout a policy period, as it directly impacts their financial planning and risk management strategies.

**10. What does "premium finance" refer to?**

- A. The repayment plan for insurance claims**
- B. Financing options available to policyholders to pay insurance premiums**
- C. The method of calculating premium increases**
- D. A type of investment made by insurance companies**

"Premium finance" refers to the financing options available to policyholders to pay their insurance premiums. This typically involves arranging a loan or payment plan that allows individuals or businesses to manage their cash flow effectively by spreading out the cost of insurance premiums over time rather than paying the full amount upfront. This financial arrangement is particularly beneficial for policyholders who may find it challenging to pay a large premium in one lump sum, instead allowing them to make smaller payments while still maintaining their insurance coverage. The term encompasses various methods of financing, including third-party financing options where an external lender may step in to cover the premium costs, which the insured then pays back over time with interest. In contrast, the other choices do not accurately depict what premium finance entails. The first choice refers to claims rather than the funding of premiums, while the third option discusses premium calculations, and the fourth involves investments made by insurance companies, neither of which relate to the financing of premiums.