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RIBO-Level-1

RIBO Level 1 Entry-Level Broker Exam

Version 6.2

QUESTIONS & ANSWERS

DEMO VERSION

(Limited Access)

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Question 1. (Single Select)

Who is a Broker NOT permitted to pay a referral fee to?

- A: A realtor.
- B: A life insurance Agent/Broker.
- C: A car salesperson.
- D: A mortgage Broker.

Answer: C

Explanation:

Under the Registered Insurance Brokers Act (RIB Act) and Ontario Regulation 991, Section 15, strict guidelines govern the sharing of commissions and the payment of referral fees. The primary intent of these regulations is to maintain the professional independence of the broker and to protect the public from "tied selling" or unethical solicitation practices. A broker is permitted to pay a referral fee only to individuals who are licensed under the RIB Act or those licensed under other specific financial regulatory frameworks, such as the Insurance Act (Life Agents) or the Real Estate and Business Brokers Act, provided that the referral does not violate the rules of those respective bodies and is fully disclosed.

A car salesperson is strictly prohibited from receiving such fees because they are not licensed to provide insurance advice, and such an arrangement creates a significant conflict of interest. This type of "kickback" could incentivize the salesperson to pressure a consumer into a specific insurance product for personal financial gain rather than the consumer's best interest. According to the RIBO Code of Conduct, brokers must remain candid and honest, ensuring that their recommendations are based solely on the client's needs. Engaging in referral fee payments to unlicensed persons in the automotive industry constitutes professional misconduct. The RIBO Blueprint emphasizes that a Level 1 broker must demonstrate knowledge of these boundaries to ensure the integrity of the profession and to prevent the exploitation of consumers at the point of sale. Maintaining a clear separation between the sale of a physical good (the car) and the procurement of a financial contract (insurance) is a fundamental regulatory requirement in Ontario.

Question 2. (Single Select)

Misrepresentation discovered by an insurer may result in the policy being voided. What circumstance must the insurer show occurred to legally void the policy?

- A: The misrepresentation was malicious.
- B: The misrepresented fact was material to the risk.
- C: The misrepresentation was the result of extreme carelessness by the insured's broker.
- D: The misrepresented fact was the product of collusion between the insured and the broker.

Answer: B

Explanation:

The concept of Materiality is central to the Legal and Regulatory Compliance domain in the RIBO Level 1 Blueprint. Under Statutory Condition 1 (Misrepresentation) of the Fire policy and similar provisions in the OAP 1, an insurer has the right to void a contract only if the facts withheld or misrepresented were "material to the risk."

A "material fact" is defined as information that would influence a reasonable underwriter in deciding whether to accept the risk or what premium to charge. If an insured provides incorrect information that does not actually affect the underwriter's assessment (e.g., misspelling a middle name), it is not a ground for voiding the policy. However, if they fail to disclose that a property is being used for commercial purposes instead of residential, that is a material fact. The insurer does not need to prove that the misrepresentation was "malicious" or "intentional" (except in specific fraud cases); they simply need to prove that the information was incorrect and material. The RIBO Competency Profile requires entry-level brokers to identify and assess these facts during the application process to prevent future claim denials.

Understanding this principle protects the broker from Errors and Omissions (E&O) claims because it emphasizes the broker's duty to ask probing questions. In the eyes of the law, the insurance contract is one of Utmost Good Faith (Uberrimae Fidei), and the "materiality" test is the objective standard used to determine if that faith has been breached.

Question 3. (Single Select)

A Secondary Residence has a main building with two detached private structures on the same premises. Under the 10% provision of the Secondary Residence Building and/or Contents Form, what is the maximum which may be claimed for the loss of either one of these detached private structures?

- A: 10% of the total amount of insurance
- B: Obtained by dividing the amount of insurance in the proportions that the value of each structure bears to the total value of both structures at the time of loss
- C: Obtained by dividing the amount of insurance by the number of structures

D: An amount equal to the value of the damaged structure without regard to other structures

Answer: B

Explanation:

This question delves into the technical application of Habitational Insurance policy forms, specifically relating to secondary residences. In most standard homeowners' forms, "Coverage B" provides a fixed percentage (usually 10% of the dwelling limit) for detached structures. However, when dealing with secondary residence forms or limited coverage forms, the wording for detached structures can be more restrictive.

The RIBO Level 1 Blueprint expects brokers to understand Insurance Product Knowledge regarding how limits apply to multiple structures. When a policy provides a single aggregate limit for "detached private structures" (often 10% of the main building's limit), and there are multiple structures involved, the settlement is typically determined proportionally. This means the 10% "pot" of money is not available in its entirety for any single structure if multiple structures exist. Instead, the limit is divided based on the relative value of each structure compared to the total value of all detached structures. This ensures the insurer is not over-exposed on a single high-value shed when the premium was calculated for multiple lower-value outbuildings. As part of Consulting and Advising, a broker must explain this proportional settlement to the client, particularly if one of the detached structures (like a boat house or guest cabin) is significantly more valuable than the other. If the proportional limit is insufficient, the broker should recommend scheduling the structure separately with a specific limit to ensure full indemnity, thereby fulfilling the Risk Identification and Assessment competency.

Question 4. (Single Select)

Nearly every insurance policy has Policy Conditions which are common to all policies issued in a particular class. Some policies also contain Statutory Conditions. Which of the following class of insurance policies contain Statutory Conditions?

- A: Fire insurance policy.
- B: Liability insurance policy.
- C: Burglary insurance policy.

Answer: A

Explanation:

The Legal and Regulatory Compliance competency requires a deep understanding of the Insurance Act of Ontario, which mandates the inclusion of Statutory Conditions in specific types of policies. These conditions are legally required and cannot be altered or removed by the insurer or the broker, as they serve to protect the rights of both the insured and the insurer.

Statutory Conditions apply to three main classes of insurance in Ontario: Fire, Automobile, and Accident and Sickness. While liability, burglary, and marine policies contain "Policy Conditions" (which are contractual), they are not governed by the legislated "Statutory Conditions" found in the Insurance Act. For a Fire policy, these conditions cover critical areas such as misrepresentation, property of others, change of interest, material change, termination, requirements after loss, and appraisal. The RIBO Level 1 Blueprint emphasizes that brokers must distinguish between these mandated conditions and standard policy wordings. Knowledge of these conditions is essential when a broker is Consulting and Advising a client on their obligations—for example, the requirement to provide a "Proof of Loss" within a specific timeframe or the rules surrounding the termination of a policy. Understanding that Fire policies are the foundation of habitation insurance (homeowners, tenants, condo) and that they carry these rigid legal protections is a core requirement for any entry-level broker seeking to ensure that their clients' contracts are compliant with provincial law.

Question 5. (Single Select)

A building worth \$500,000 is insured for \$300,000 with a 90% co-insurance clause. A fire causes \$200,000 damage. How much does the insurer pay?

- A: \$100,000
- B: \$122,222.22
- C: \$200,000
- D: \$133,333.33

Answer: D

Explanation:

This question tests the Critical and Analytical Thinking competency through a mathematical application of the Co-insurance Clause, a fundamental concept in commercial and some personal property insurance. The purpose of the co-insurance clause is to encourage the insured to maintain adequate limits of insurance relative to the value of the property. If the insured fails to meet the required percentage, they

become a "co-insurer" and must share in the loss.

The formula for co-insurance is: $(\text{Amount of Insurance Carried} / \text{Amount of Insurance Required}) \times \text{Amount of Loss} = \text{Claim Payment}$.

In this scenario:

Value of building: \$500,000.

Required amount (90%): $\$500,000 \times 0.90 = \$450,000$.

Amount carried (Did): \$300,000.

Amount required (Should): \$450,000.

Loss: \$200,000.

Calculation: $(\$300,000 / \$450,000) \times \$200,000 = (2/3) \times \$200,000 = \$133,333.33$.

The RIBO Level 1 Blueprint emphasizes that brokers must not only perform this calculation but also explain the implications of underinsurance to their clients during the Consulting and Advising phase. By failing to insure the building for at least \$450,000, the client has suffered a penalty of \$66,666.67 on a \$200,000 loss. A broker's ability to identify this risk and assess the correct replacement cost value is vital to avoiding Errors and Omissions (E&O). This calculation demonstrates the practical application of property valuation and the contractual consequences of failing to maintain insurance to value, ensuring the broker provides a professional assessment of the client's financial exposure.

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