

# California Insurance Law and Ethics

Solution key

April 6, 2026

Official exam page

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1. A California producer whose license lapses due to non-renewal may reinstate the license within how many years without retaking the exam?

- A. 10 years
- B. The exam must always be retaken
- C (correct). 5 years without retaking the exam**
- D. 1 year

Rationale: California allows reinstatement of a lapsed producer license within 5 years without retaking the exam, subject to payment of fees and completion of any outstanding CE requirements.

2. California's mandatory 1-hour anti-fraud training (included in the 12-hour pre-licensing requirement) is designed to teach producers to:

- A (correct). Recognize warning signs, understand reporting obligations, and comply with fraud prevention statutes**
- B. Process insurance applications more quickly
- C. Teach producers to maximize claim settlements
- D. Learn how to investigate and prosecute fraud personally

Rationale: The anti-fraud training hour teaches producers to recognize the warning signs of insurance fraud, understand their reporting obligations, and comply with California's fraud prevention statutes.

3. Under California Insurance Code, the maximum fine for willfully misrepresenting a material fact on an insurance application is:

- A. \$500 per violation
- B. License suspension for 30 days
- C. A written warning for the first offense
- D (correct). Up to \$150,000 or double the fraud amount, plus potential imprisonment**

Rationale: CIC Section 1871.1 addresses insurance fraud penalties. Willful misrepresentation on insurance applications can result in fines, license suspension, and criminal prosecution.

4. Under California Insurance Code, a non-resident producer must hold a license in which state to qualify for a California non-resident license?

- A (correct). Their home state (state of residence) has issued them a license and extends reciprocity**
- B. Their home state does not require any license
- C. They have at least 5 years of experience

D. They have passed a background check only

Rationale: A non-resident producer qualifies for a California license if their home state (state of residence) has issued them a license and that state extends reciprocal licensing to California residents.

5. An insurance producer acting in a fiduciary capacity must:

A. Recommend the most comprehensive coverage available

B. Maximize commissions on every transaction

C. Follow insurer instructions regardless of client impact

**D (correct). Put client interests first, exercise care, disclose conflicts, and handle funds separately**

Rationale: A fiduciary must put the client's interests first, exercise reasonable care and diligence, disclose conflicts of interest, and handle client funds separately from personal funds.

6. After passing the California insurance licensing exam, an applicant must submit a license application to CDI within:

A. No time limit

B. 6 months

C. 2 years

**D (correct). 12 months from the date of passing the examination**

Rationale: CIC Section 1676 requires the license application to be filed within 12 months of passing the examination. After 12 months the exam result expires and the exam must be retaken.

7. Under California law, a producer's license must be renewed every:

A. Only if CDI requires it

B. Every year

C. Every three years

**D (correct). Every two years with 24 CE hours including 3 ethics hours**

Rationale: California producer licenses are renewed every two years with 24 hours of continuing education, including 3 hours of ethics.

8. Workers' compensation fraud in California is prosecuted under:

A. The California Penal Code only

**B (correct). Both CIC Section 1871 and Labor Code Section 3700**

C. Only CIC Section 1871

D. Federal RICO statutes only

Rationale: Workers' comp fraud is addressed under both CIC Section 1871 and Labor Code Section 3700. CDI's Workers' Compensation Fraud Program handles investigation and prosecution.

9. Under California law, a producer who receives client premiums must:

A. Remit premiums only when it is convenient

B. Retain 10% of premiums as a collection fee

C. Deposit premiums in a personal account for up to 30 days

**D (correct). Remit premiums promptly and keep them separate from personal funds**

Rationale: Producers who collect premiums act as fiduciaries for the insurer. Premiums must be remitted promptly and cannot be commingled with personal funds — misuse constitutes theft.

10. A California insurance producer acting as an agent represents:

**A (correct). The insurer — the agent acts on behalf of the insurance company**

B. The state of California

C. Neither party — agents are independent contractors

D. The insured seeking coverage

Rationale: An agent represents the insurer, not the policyholder. A broker represents the insured. The distinction matters for determining who bears liability for coverage errors.

11. Under California law, insurance policies are contracts of:

- A. Bilateral contracts — both parties make promises
- B (correct). Adhesion — drafted by insurer, ambiguities construed against insurer**
- C. Commutative contracts — equal exchange of value
- D. Aleatory contracts — one party gives more than the other

Rationale: Insurance policies are contracts of adhesion — drafted entirely by the insurer and offered on a take-it-or-leave-it basis. Ambiguities are therefore construed against the insurer.

12. Staging an automobile accident for the purpose of filing a fraudulent insurance claim is classified as:

- A. A misdemeanor
- B. An administrative violation
- C. A civil infraction
- D (correct). A felony under CIC Section 1871.7 with fines of \$5,000 to \$150,000 per violation**

Rationale: Staged accidents for insurance fraud are felonies under CIC Section 1871.7, which imposes fines of \$5,000 to \$150,000 per violation plus potential imprisonment.

13. Under CIC, "churning" refers to:

- A. Submitting claims on a client's behalf
- B. Selling insurance aggressively to increase market share
- C (correct). Replacing policies unnecessarily to generate additional commissions**
- D. Offering multiple lines of insurance to the same client

Rationale: Churning is the practice of replacing policies unnecessarily — primarily to generate additional commissions — without benefit to the policyholder. It is an unfair trade practice under CIC.

14. California's Department of Insurance Fraud Division has authority to investigate fraud related to:

- A. Auto fraud only
- B. Only workers' compensation fraud
- C (correct). All lines — auto, workers' comp, health, life, and property insurance**
- D. Only cases involving more than \$10,000

Rationale: CDI Fraud Division investigates fraud across all lines including auto, workers' comp, health, life, and property insurance — all under the California Insurance Fraud Prevention Act.

15. California continuing education requirements for licensed producers include 24 hours every two years, of which at least how many hours must cover ethics?

- A. No ethics requirement
- B (correct). 3 hours of ethics**
- C. 1 hour
- D. 12 hours of ethics

Rationale: CIC requires 24 CE hours per renewal cycle with at least 3 hours specifically on ethics for all producer license types.

16. California Insurance Code requires insurers to acknowledge receipt of a claim within how many days?

- A (correct). 15 calendar days**
- B. 30 calendar days
- C. 5 business days
- D. 60 days

Rationale: CIC Section 790.03 requires insurers to acknowledge receipt of a claim within 15 calendar days and begin investigation promptly.

17. A producer who signs a client's name on an insurance document without authorization has committed:

- A (correct). Forgery — a felony and grounds for license revocation**
- B. Permissible if the client gave verbal consent

- C. A misdemeanor only
- D. An administrative violation with a warning

Rationale: Signing another person's name without authorization is forgery, a felony under California law, and grounds for license revocation under CIC Section 1668.

18. A producer who learns of a material change in a client's risk situation has an ethical obligation to:

- A (correct). Inform the client and recommend appropriate coverage adjustments**
- B. Ignore the change if it doesn't affect the premium
- C. Report the change to CDI immediately
- D. Cancel the policy immediately

Rationale: A producer who becomes aware of a material change in risk should inform the client and recommend appropriate coverage adjustments, acting in the client's best interest.

19. The CDI Commissioner has authority to suspend or revoke a producer license for which of the following reasons?

- A. Only for non-payment of license fees
- B. CDI cannot revoke licenses — only suspend them
- C (correct). Misrepresentation, fraud, incompetence, felony conviction, rebating, misappropriation, or CIC violation**
- D. Only for criminal convictions

Rationale: CDI can suspend or revoke a license for misrepresentation, fraud, incompetence, felony conviction, rebating, misappropriation of premiums, or violation of any provision of the Insurance Code.

20. The California Department of Insurance (CDI) is headed by the:

- A. The California State Legislature
- B. The Governor of California
- C. The Director of the Department of Consumer Affairs
- D (correct). The independently elected California Insurance Commissioner**

Rationale: The California Insurance Commissioner is an independently elected official (not appointed) who heads the CDI and is responsible for enforcing the California Insurance Code.

21. The California Insurance Guarantee Association (CIGA) protects policyholders when:

- A. The policy is cancelled for non-payment
- B. The policyholder moves out of California
- C. The insurer has paid excess claims
- D (correct). A member admitted insurer becomes insolvent and cannot pay claims**

Rationale: CIGA pays covered claims up to statutory limits when a member admitted insurer becomes insolvent. It covers personal and commercial property, casualty, and workers' comp lines.

22. Under California law, a producer who collects a premium but fails to remit it to the insurer may be charged with:

- A. A civil penalty only
- B. No violation if remitted within 90 days
- C (correct). Theft or embezzlement — criminal prosecution and immediate license revocation**
- D. A licensing CE requirement only

Rationale: A producer who fails to remit premiums collected on behalf of an insurer has committed theft or embezzlement — grounds for criminal prosecution and immediate license revocation.

23. A California insurance license application requires the applicant to disclose:

- A. Only contact information
- B. Preferred insurance lines only
- C. No disclosure required for first-time applicants
- D (correct). Criminal history, prior license discipline, bankruptcy, and regulatory actions in**

other states

Rationale: All license applications require disclosure of criminal history, prior license discipline, bankruptcy, and any regulatory actions in other states — material to the character review.

**24.** When replacing an existing life insurance policy, California law requires the producer to provide the client with:

- A. Only verbal disclosure is required
- B. A simple form showing the new policy premium
- C (correct). A comparison disclosure showing benefits, costs, and surrender charges of both policies**
- D. No disclosure required if the new policy is lower cost

Rationale: California replacement regulations (CIC Section 10509 et seq.) require a comparison disclosure showing benefits, costs, and surrender charges of both the old and new policies.

**25.** A producer who recommends a policy primarily because it pays the highest commission, without regard for the client's needs, has violated which ethical duty?

- A. Only a violation if the client complains
- B. Selecting the most affordable policy for the client
- C (correct). Breach of fiduciary duty — recommending for commission rather than client need**
- D. Appropriate sales technique under CIC

Rationale: A producer owes a duty of suitability and good faith to the client. Recommending a product for commission rather than fit is a breach of fiduciary duty and may violate CIC unfair practices provisions.

**26.** The California Insurance Code prohibits an insurer from discriminating in coverage or rates based on:

- A. Age and gender
- B. Credit score and claims history
- C. Geographic location and property age
- D (correct). Race, color, national origin, religion, sex, marital status, or sexual orientation**

Rationale: CIC prohibits discrimination based on race, color, national origin, religion, ancestry, sex, marital status, or sexual orientation in providing insurance products and services.

**27.** Under California law, the statute of limitations for prosecuting insurance fraud is:

- A (correct). 4 years from the date of offense or discovery, whichever is later**
- B. 6 months from the date of the claim
- C. No statute of limitations for insurance fraud
- D. 1 year from the date of the offense

Rationale: Under CIC, the statute of limitations for insurance fraud prosecution is generally 4 years from the date of the offense or from when it was discovered, whichever is later.

**28.** A California insurance producer who places coverage with a non-admitted insurer through a surplus lines broker must ensure:

- A. Place the risk without checking admitted market availability
- B (correct). Diligently seek coverage from at least three admitted carriers before placing surplus lines**
- C. Get approval from CDI for each surplus lines placement
- D. Require the client to waive all consumer protections

Rationale: Surplus lines placement requires that coverage was "diligently sought" from at least three admitted carriers and declined before placing with a non-admitted surplus lines insurer.

29. The principle of utmost good faith (uberrimae fidei) in insurance requires:

- A. Only the insurer must act with honesty
- B (correct). Both insurer and insured must act with complete honesty and disclose all material facts**
- C. Neither party is obligated to volunteer information
- D. Only the insured must disclose information

Rationale: Insurance contracts require both parties — insurer and insured — to act with complete honesty, disclose all material facts, and not withhold information that would affect the contract terms.

30. Under CIC Section 1858, an insurer must pay a claim or provide written denial with reasons within how many days of receiving proof of loss?

- A. 180 days
- B. 90 days
- C (correct). 40 days of receiving proof of loss**
- D. 10 days

Rationale: CIC Section 790.03 and related regulations require insurers to accept or deny claims within 40 days of receiving proof of loss, with written notice to the claimant.

31. When must a California producer disclose any compensation they will receive on a transaction to the client?

- A (correct). Before completing the transaction — conflicts of interest must be disclosed in advance**
- B. After the policy is issued
- C. Only if compensation exceeds \$5,000
- D. Only if the client specifically asks

Rationale: AB 2956 and CIC Section 1725.5 require producers to disclose compensation arrangements and potential conflicts of interest to clients before completing a transaction.

32. A California licensed producer who suspects insurance fraud is being committed by a client must:

- A (correct). Report suspected fraud to CDI's Fraud Division or the insurer's SIU**
- B. Ignore it — fraud investigation is the insurer's responsibility
- C. Confront the client directly
- D. Cancel the client's policy immediately

Rationale: CIC Section 1872.4 requires producers and insurers to report suspected fraud to CDI's Fraud Division or to the insurer's SIU (Special Investigations Unit). Failure to report can result in license discipline.

33. A California producer who changes their address of record must notify CDI within:

- A. 90 days
- B. Only at the time of license renewal
- C (correct). 30 days**
- D. 60 days

Rationale: CIC Section 1729.5 requires producers to notify CDI of address changes within 30 days. Failure to do so can result in missed renewal notices and technical license lapse.

34. Under California Insurance Code, an admitted insurer is one that:

- A (correct). Holds a Certificate of Authority from CDI and participates in CIGA**
- B. Can only write commercial lines insurance
- C. Is exempt from CDI rate filing requirements
- D. Has higher rates than non-admitted insurers

Rationale: An admitted insurer holds a Certificate of Authority from CDI, must comply with California rate filing requirements, and its policyholders are protected by the California Insurance Guarantee Association (CIGA).

35. California's ethical guidelines require that advertising for insurance products must:

- A (correct). Be truthful, not misleading, identify the insurer, and not omit material information**
- B. Only disclose the premium and coverage limit
- C. Require CDI pre-approval before publication
- D. May contain false statements if they generate interest

Rationale: Insurance advertising must be truthful, not misleading, clearly identify the insurer, and not omit material information. CDI enforces advertising standards under CIC Section 790.03.

36. Under Proposition 103, prior approval of insurance rates by CDI is required for:

- A (correct). Personal lines auto, homeowners, and earthquake insurance**
- B. Life insurance only
- C. Commercial package policies only
- D. All lines of insurance in California

Rationale: Prop 103 requires prior CDI approval before rate changes can take effect for personal lines auto, homeowners, and earthquake insurance — a stronger regulatory system than most states.

37. Under California law, a homeowner's insurer that non-renews a policy must provide how many days advance notice?

- A. 30 days
- B. 10 days
- C. 60 days
- D (correct). 45 days**

Rationale: CIC Section 678 requires 45 days advance notice for non-renewal of a homeowners policy, giving the policyholder time to find replacement coverage.

38. California Insurance Code Section 1871.4 makes it a crime to:

- A. Present truthful insurance claims
- B (correct). Present or assist in presenting fraudulent insurance claims**
- C. Charge premiums above the approved rate
- D. Fail to renew a license on time

Rationale: CIC 1871.4 makes it a felony to present fraudulent insurance claims or assist in doing so, with penalties including imprisonment and fines up to \$150,000 or double the fraud amount.

39. The California Insurance Code prohibits an insurer from using which of the following as a basis for cancelling a personal lines policy mid-term?

- A. Non-payment of premium
- B (correct). Cancellation based on protected class (race, religion, national origin, etc.)**
- C. The client's credit score declined
- D. Material misrepresentation on the application

Rationale: CIC prohibits cancellation of personal lines policies mid-term except for specific reasons: non-payment, fraud, material misrepresentation, or substantial increase in risk. Using race, religion, or protected class is prohibited.

40. A licensed producer's duty of confidentiality requires that client information:

- A. May be shared with any third party for marketing purposes
- B. May be disclosed to other insurance companies without restriction
- C (correct). Must be kept confidential and not shared without client consent under California privacy laws**
- D. Only health information is protected — financial information may be shared

Rationale: Producers must keep client financial, health, and personal information confidential. California's financial privacy laws (CIC Section 791 et seq.) restrict sharing without client consent.

41. Under California Insurance Code, which action constitutes "twisting"?

- A. Offering a free insurance consultation
- B. Recommending a lower-cost policy to a client
- C. Filing a claim on a client's behalf

**D (correct). Inducing a policyholder to replace an existing policy through misrepresentation**

Rationale: Twisting is the practice of inducing a policyholder to lapse, surrender, or replace an existing insurance policy through misrepresentation or incomplete comparison — prohibited under CIC Section 780.

42. California's 12-hour pre-licensing requirement (effective January 1, 2026, per AB 943) replaced the previous requirement of:

- A. No prelicensing requirement
- B. A 52-hour line-specific prelicensing course
- C. A 4-hour online course

**D (correct). A 20-40 hour line-specific prelicensing course**

Rationale: AB 943 reduced the pre-licensing education requirement from a 20-40 hour line-specific course to 12 hours covering Ethics and California Insurance Code for all lines.

43. A California producer who participates in a scheme to submit false medical billing to an insurer faces:

- A (correct). A felony with imprisonment, fines up to \$150,000 or double the fraud amount, and license revocation**
- B. Only civil liability
- C. A first-offense warning
- D. A \$500 fine

Rationale: False medical billing as part of insurance fraud is a felony under CIC Section 1871.4, punishable by imprisonment, fines up to \$150,000 or double the fraud amount, and permanent license revocation.

44. California Insurance Code Section 790 prohibits which type of insurance industry practice?

- A. Requiring policyholders to give timely notice of loss
- B. Charging premiums based on risk classification
- C. Requiring medical exams for all applicants

**D (correct). Denying claims without investigation or making low offers without explanation**

Rationale: CIC Section 790 (Unfair Practices Act) prohibits unfair claims settlement practices, including denying claims without reasonable investigation, failing to acknowledge communications, and offering less than owed.

45. The CDI's authority under Proposition 103 to review and approve rates applies to which insurance lines?

- A. Life and health lines only
- B (correct). Personal auto, homeowners, and earthquake insurance**
- C. Workers' compensation and surety bonds
- D. All commercial and personal lines

Rationale: Prop 103 prior approval rate regulation applies to personal auto, homeowners, and earthquake insurance — the lines that most directly affect California consumers.

46. Under CIC, "misrepresentation" by an insurance producer includes:

- A (correct). Making false or misleading statements about policy terms, benefits, or insurer financial condition**
- B. Explaining policy exclusions to a client
- C. Declining to write a risk outside the insurer's appetite
- D. Providing correct premium quotes

Rationale: Misrepresentation includes making false or misleading statements about policy terms, benefits, or insurer financial condition to induce purchase — prohibited under CIC Section 780.

47. A producer who makes a material misrepresentation on their license application is subject to:

- A. A \$100 fine only
- B. No penalty if the license was not yet issued
- C. A warning letter only

**D (correct). License denial, suspension, or revocation and potential criminal fraud charges**

Rationale: Misrepresentation on a license application is grounds for license denial, suspension, or revocation and may result in criminal fraud charges under CIC and California Penal Code.

48. Under California Insurance Code, a producer found guilty of willful misrepresentation may be fined up to what amount per violation?

- A. Up to \$500
- B (correct). Up to \$5,000 per violation**
- C. Up to \$50,000 per violation
- D. No fines — only license action

Rationale: CIC Section 1669 provides for fines up to \$5,000 per violation for willful misrepresentation, in addition to license suspension or revocation.

49. The California Insurance Code defines "replacement" of a life insurance policy as:

- A. When coverage is added to an existing policy
- B. When a new agent takes over an existing policy
- C. When a policy is renewed with the same insurer
- D (correct). When a new policy causes an existing policy to lapse, surrender, or terminate**

Rationale: Replacement occurs when a new life policy is purchased and, as a result, an existing policy is lapsed, surrendered, converted, or otherwise terminated. CDI regulations require specific disclosures.

50. Which of the following is an example of "rebating" under California Insurance Code?

- A. Charging a higher premium than competitors
- B (correct). Giving cash, gifts, or services not specified in the policy to induce purchase**
- C. Providing a free policy review
- D. Offering a 10% discount on premiums

Rationale: Rebating is offering any inducement not specified in the policy — including cash, gifts, or services — to induce someone to purchase insurance. CIC Section 750 prohibits rebating.