

California Personal Lines Insurance

Solution key

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1. Which type of insurer is owned by its policyholders, who may receive dividends if the company is profitable?

- A. Claims are settled by an independent panel that includes the insured
- B. Lloyd's association
- C. Coverage automatically renews each year without premium increases
- D (correct). Policyholders may share in the insurer's profits through dividends**
- undefined. Stock insurer
- undefined. The insured participates in setting their own premium
- undefined. Mutual insurer
- undefined. Reciprocal exchange

Rationale: A mutual insurance company is owned by its policyholders, not shareholders. If the company is profitable, policyholders may receive dividends (a return of excess premium). Stock insurers are owned by shareholders. Lloyd's is an insurance market, not a company type.

2. Under California Insurance Code, a homeowner's insurer must offer earthquake insurance when renewing a residential property policy. This requirement applies to:

- A (correct). All admitted insurers writing residential property policies — offer required at each renewal**
- B. Only homeowners with properties in seismic zone 4
- C. Only insurers that already offer earthquake coverage
- D. All admitted insurers offering residential property policies

Rationale: California law requires insurers writing residential property insurance to offer earthquake coverage at each renewal. This does not obligate the homeowner to purchase it — only that the offer be made.

3. The "towing and labor" coverage endorsement under a PAP pays for:

- A. The cost to repair mechanical breakdown at a service center
- B. Rear-ending a parked car
- C. The insured's car flipping over on a highway
- D. Rental car costs while the vehicle is being towed
- undefined (correct). Towing to the nearest repair facility and labor at the disablement site**
- undefined. The insured's car striking a deer
- undefined. Any roadside expense including fuel delivery and locksmith services
- undefined. A head-on collision with another vehicle

Rationale: Towing and labor coverage (an optional PAP endorsement) pays the cost of towing a disabled covered vehicle to the nearest repair facility and labor costs performed at the site of

disablement (e.g., jump-start, flat tire change). It does not pay for the repair itself.

4. Which of the following is a characteristic of an "open perils" property policy compared to a "named perils" policy?

- A (correct). The insurer must prove an exclusion applies to deny the claim**
- B. Fewer perils are covered compared to a named perils policy
- C. The insured must prove the specific peril that caused the loss
- D. The policy lists all covered perils alphabetically

Rationale: An open perils (all-risk) policy covers all causes of loss except those specifically excluded. The burden of proof shifts: the insured must only show a loss occurred; the insurer must prove an exclusion applies to deny the claim. Under named perils, the insured must prove the loss was caused by a listed peril.

5. Under California Insurance Code § 533, an insurer is NOT liable for a loss caused by:

- A. Accidental acts of the insured
- B. Natural disasters that the insured could have prevented
- C. Acts of negligence by a third party

D (correct). The willful act of the insured

undefined. Requiring prior approval of rate increases and mandating a good driver discount
undefined. Deregulating auto insurance rates and eliminating government oversight
undefined. Mandating coverage for all California drivers at no cost
undefined. Creating a state-run auto insurance monopoly

Rationale: Cal. Ins. Code § 533 provides that an insurer is not liable for any loss caused by the willful act of the insured. This is a statutory codification of the principle that insurance cannot cover intentional wrongdoing. Courts have debated whether it bars coverage for all intentional acts or only those with intent to harm.

6. Under the ISO PAP, a newly acquired vehicle is automatically covered for how long after acquisition, assuming the insurer already covers at least one vehicle for the insured?

A. 30 days

B (correct). A friend borrowing the car with the owner's permission

C. 7 days

D. An unlicensed household member

undefined. A mechanic test-driving the car without explicit owner permission
undefined. A commercial delivery driver using the car for business
undefined. 60 days
undefined. 14 days

Rationale: The PAP provides automatic coverage for newly acquired vehicles for 14 days if the insurer already covers at least one personal auto. The insured must notify the insurer within that window. If the insured wants physical damage (comprehensive/collision) coverage on the new vehicle, the existing policy must already include that coverage.

7. Medical payments (MedPay) coverage under a personal auto policy pays:

- A. Liability damages owed to third parties injured in the accident
- B. Filing a financial hardship waiver with the DMV
- C. Registering the vehicle in another state with lower requirements
- D. Completing a state-approved defensive driving course

undefined. The other driver's repair costs when the insured is at fault

undefined (correct). Medical and funeral expenses for the insured and passengers, regardless of fault

undefined. Long-term disability income if the insured cannot return to work
undefined. Purchasing auto liability insurance meeting minimum required limits

Rationale: MedPay (Part B of the PAP) pays reasonable medical and funeral expenses for the insured and passengers injured in a covered auto accident, regardless of fault. It is not a substitute for health insurance but provides quick payment. It applies whether the insured

was at fault or not.

8. Under the California Insurance Code, what is the maximum penalty an insurer can face for engaging in unfair claims settlement practices?

- A. Mandatory retraining with no other consequences
- B. A fine limited to \$500 per violation
- C (correct). License suspension or revocation and civil monetary penalties**
- D. A written warning with no financial penalty

Rationale: The California Insurance Code allows the Department of Insurance to impose civil penalties for unfair claims settlement practices. Severe or repeated violations can result in license suspension or revocation in addition to monetary fines, making regulatory compliance essential for insurers operating in California.

9. An insured intentionally sets fire to their own building and files a claim. The insurer denies the claim based on which policy exclusion?

- A. The property damage exclusion
- B. The pollution exclusion
- C. The wear and tear exclusion
- D (correct). The intentional acts exclusion**

Rationale: The intentional acts exclusion bars coverage for losses the insured deliberately causes. Insurance covers only fortuitous (accidental) losses. Covering intentional destruction would violate the principle of indemnity, create moral hazard, and expose insurers to fraud.

10. Which of the following BEST describes "earth movement" under a standard commercial property policy?

- A (correct). A standard exclusion requiring separate coverage or an endorsement**
 - B. A covered peril requiring no endorsement
 - C. Covered only if caused by a named storm
 - D. Vandalism
- undefined. Theft
- undefined. Windstorm and hail
- undefined. Fire
- undefined. Automatically covered under HO-3 in California by state law

Rationale: Earth movement (including earthquakes, landslides, and sinkholes) is a standard exclusion under both homeowners and commercial property policies. Earthquake coverage must be added by endorsement or purchased as a separate policy — critically important in California.

11. The principle of "subrogation" does NOT apply in which of the following situations?

- A (correct). A life insurance policy pays a death benefit after the insured dies**
 - B. The loss must be measurable in financial terms
 - C. The loss must be intentionally caused by a third party
 - D. The loss must be accidental from the insured's standpoint
- undefined. A third-party contractor causes a covered loss to the insured's property
- undefined. The insured negligently causes damage to a neighbor's property
- undefined. There must be a large number of similar exposure units
- undefined. An at-fault driver damages the insured's vehicle

Rationale: Subrogation allows the insurer to recover from a negligent third party after paying a claim. However, subrogation does not apply when the insured caused their own loss, when the insured releases the third party from liability before a loss occurs (which can void coverage), or in life insurance (because the principle of indemnity does not apply to life policies).

12. A business owner policy (BOP) is MOST appropriate for:

- A (correct). A small retail store or professional office**
 - B. A large manufacturing plant with complex machinery
 - C. An auto dealership with a large vehicle inventory
 - D. A hospital with significant medical malpractice exposure
- undefined. Older homes where replacement cost significantly exceeds market value
undefined. Mobile homes and manufactured housing
undefined. New luxury homes in high-cost coastal markets
undefined. Rental properties owned by absentee landlords

Rationale: A BOP is a package policy designed for small-to-medium businesses that bundles property and general liability coverage at a discount. It is NOT available for large manufacturers, auto dealers, or businesses with significant professional liability exposure. Eligible classes are defined by the insurer.

13. Under the ISO Building and Personal Property (BPP) form, "tenant's improvements and betterments" are covered as:

- A (correct). The tenant's business personal property coverage**
- B. A separate inland marine floater only
- C. Excluded — TIBs belong to the landlord once installed
- D. Building coverage since TIBs are attached to the structure

Rationale: Tenant improvements and betterments (TIBs) — alterations or additions made by a tenant at their own expense that cannot be legally removed — are included in the tenant's business personal property coverage under the BPP form. The tenant has an insurable interest in these improvements even though they are attached to the building.

14. Under California law, a homeowners insurance policy must be renewed unless the insurer provides at least how many days' advance notice of non-renewal?

- A. 10 days
- B. 20 days
- C (correct). 45 days**
- D. 30 days

Rationale: Cal. Ins. Code § 678 requires insurers to give at least 45 days' advance written notice of non-renewal for homeowners policies. For auto policies, the notice period is also 45 days for non-renewal. This gives policyholders time to find replacement coverage.

15. Which of the following BEST describes an "aleatory" contract?

- A. Domestic
 - B. One where both parties exchange equal values at policy inception
 - C (correct). One where the performance of one party depends on an uncertain future event**
 - D. Alien
- undefined. One where the insurer guarantees a profit to the insured
undefined. Surplus lines
undefined. Foreign
undefined. One that must be in writing to be enforceable

Rationale: An aleatory contract is one where the values exchanged by the parties are unequal and depend on chance. The insured pays a relatively small, certain premium in exchange for the insurer's promise to pay a potentially much larger, uncertain benefit. This is what distinguishes insurance from bilateral service contracts.

16. Under California law, a surplus lines (non-admitted) insurer may be used when:

- A. 10 days
 - B. An admitted insurer offers coverage at a higher premium
 - C (correct). 20 days**
 - D. The insured wants to avoid state guarantee fund assessments
- undefined. The insured prefers not to deal with CDI-regulated insurers
undefined. 30 days
undefined. The risk is so unusual or hazardous that admitted carriers will not write it after a diligent search

undefined. 45 days

Rationale: California Insurance Code § 1765.1 permits placement with a non-admitted (surplus lines) carrier only after a diligent search of the admitted market has failed to produce coverage. Non-admitted carriers are not subject to CDI rate/form approval and are not covered by the California Insurance Guarantee Association (CIGA).

17. The California FAIR Plan provides:

- A. Free coverage for low-income homeowners in wildfire areas
- B. Flood and earthquake coverage for properties in disaster zones
- C (correct). Basic property insurance (fire and extended coverage) as a last resort for high-risk properties**
- D. Comprehensive homeowners coverage comparable to an HO-3 policy

Rationale: The California FAIR Plan (Fair Access to Insurance Requirements) is an insurer of last resort for property owners who cannot obtain homeowners or dwelling coverage in the voluntary market, often due to wildfire risk. It provides basic fire and extended coverage — it is NOT a comprehensive homeowners policy.

18. California's mandatory financial responsibility law requires that every owner or operator of a motor vehicle must be able to demonstrate the ability to pay for damages. The MOST common method of satisfying this requirement is:

- A (correct). Medical and funeral expenses for the insured and passengers, regardless of fault**
 - B. Purchasing auto liability insurance meeting minimum required limits
 - C. Filing a financial hardship waiver with the DMV
 - D. The other driver's repair costs when the insured is at fault
- undefined. Liability damages owed to third parties injured in the accident
undefined. Long-term disability income if the insured cannot return to work
undefined. Registering the vehicle in another state with lower requirements
undefined. Completing a state-approved defensive driving course

Rationale: California Vehicle Code § 16020 requires drivers to maintain financial responsibility. The most common method is purchasing auto liability insurance meeting the minimum limits (15/30/5). Alternatives include a cash deposit, surety bond, or self-insurance certificate, but these are rare and used by large fleets.

19. Under California's Proposition 103, the THREE primary factors insurers must use to set personal auto rates in order of importance are:

- A (correct). \$15,000 per person / \$30,000 per accident / \$5,000 property damage**
 - B. \$15,000 per accident / \$30,000 per person / \$5,000 property damage
 - C. \$25,000 per person / \$50,000 per accident / \$10,000 property damage
 - D. Age, gender, and marital status
- undefined. \$30,000 per person / \$60,000 per accident / \$15,000 property damage
undefined. Vehicle type, garaging location, and annual miles driven
undefined. Credit score, homeownership, and commute distance
undefined. Driving safety record, annual miles driven, and years of driving experience

Rationale: Cal. Ins. Code § 1861.02 mandates that California auto insurers use driving safety record (most important), annual miles driven (second), and years of driving experience (third) as the top three rating factors. Secondary factors like vehicle type and homeownership may also be used but cannot override the primary three.

20. The California FAIR Plan provides property insurance to homeowners who cannot obtain coverage in the standard market. FAIR Plan policies are:

- A. A government program funded by FEMA
- B. A surplus lines insurer for high-risk properties
- C (correct). An insurer of last resort — a pooling arrangement among all admitted insurers**
- D. A state agency that issues policies directly

Rationale: The CA FAIR Plan is an insurer of last resort offering basic fire and extended coverage. It is not a government program but a pooling arrangement among all admitted insurers

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required to participate.

21. An insured has a \$500,000 commercial building insured under a policy with an 80% coinsurance requirement. The building's actual replacement cost is \$800,000. The insured suffers a \$200,000 partial loss. How much does the insurer pay (ignoring the deductible)?

- A. \$125,000
- B. \$200,000
- C (correct). \$156,250**
- D. \$160,000

Rationale: Required: $80\% \times \$800,000 = \$640,000$. Carried: \$500,000. Ratio: $\$500,000 / \$640,000 = 78.125\%$. Payment = $78.125\% \times \$200,000 = \$156,250$. The insured bears \$43,750 as co-insurer due to under-insurance.

22. An insurer that is incorporated in Arizona but licensed to do business in California is considered a _____ insurer in California.

- A. One where both parties exchange equal values at policy inception
 - B. One that must be in writing to be enforceable
 - C (correct). Foreign**
 - D. One where the performance of one party depends on an uncertain future event
- undefined. One where the insurer guarantees a profit to the insured
undefined. Surplus lines
undefined. Alien
undefined. Domestic

Rationale: An insurer is classified by domicile relative to the state where it does business. An insurer incorporated in a different U.S. state (like Arizona) is a "foreign" insurer in California. "Domestic" means incorporated in California; "alien" means incorporated outside the U.S.

23. Under the California Insurance Code, an insurer must provide at least how many days' advance written notice before cancelling a personal auto policy mid-term (for reasons other than nonpayment of premium)?

- A. An admitted insurer offers coverage at a higher premium
 - B. The insured prefers not to deal with CDI-regulated insurers
 - C (correct). The risk is so unusual or hazardous that admitted carriers will not write it after a diligent search**
 - D. 30 days
- undefined. 45 days
undefined. The insured wants to avoid state guarantee fund assessments
undefined. 20 days
undefined. 10 days

Rationale: Cal. Ins. Code § 1861.03 requires at least 20 days' notice for mid-term cancellation for reasons other than nonpayment. For nonpayment, 10 days' notice is required. At renewal, 45 days' notice of non-renewal is required.

24. A person purchases fire insurance on a building they do not own and have no financial stake in. If the building burns down, they cannot collect because they lack:

- A. Subrogation rights
 - B. Adhesion
 - C (correct). It cannot be transferred to another party without the insurer's consent**
 - D. Proximate cause
- undefined. Insurable interest
undefined. It is owned collectively by all policyholders in a pool
undefined. It covers all property within a specific geographic territory
undefined. It is only valid for the personal use of the named insured's family

Rationale: Insurable interest requires the policyholder to suffer a direct financial loss if the

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insured event occurs. Without an insurable interest at the time of loss (for property), the policy is unenforceable. Its purpose is to prevent insurance from becoming a wagering contract.

25. Under the ISO HO-3, personal liability (Coverage E) does NOT cover bodily injury or property damage:

A (correct). Arising from the insured's business pursuits or professional services

B. Fire

C. Caused by a guest falling on the insured's driveway

D. Caused by a covered peril on the insured premises

undefined. Windstorm

undefined. Arising from the insured's personal recreational activities

undefined. Theft

undefined. Flood

Rationale: Coverage E excludes intentional acts, business pursuits, professional services, and auto-related injuries (which belong under the PAP). It also excludes injuries to the insured themselves — it is third-party liability coverage only.

26. The DICE acronym used to analyze insurance policy provisions stands for:

A. Contribution

B (correct). Indemnity

C. Duties, Insurance Limit, Coverage, Endorsements

D. Insurable interest

undefined. Declarations, Indemnification, Claims, Exclusions

undefined. Subrogation

undefined. Declarations, Insuring Agreement, Conditions, Exclusions

undefined. Definitions, Indemnity Clause, Coverage, Endorsements

Rationale: DICE — Declarations, Insuring Agreement, Conditions, Exclusions — represents the four main sections of most insurance policies. Declarations identify the insured and coverage details; the Insuring Agreement states what is covered; Conditions set duties and requirements; Exclusions remove specific coverages.

27. Under the ISO commercial property program, which of the following is NOT covered under the Building and Personal Property (BPP) Coverage Form?

A. Pays the insured's own medical bills after an accident

B (correct). Land

C. Requires proof of negligence before paying any medical expenses

D. Covers household residents injured in accidents at home

undefined. Pays medical expenses of third parties injured on the premises regardless of fault

undefined. Outdoor signs attached to the building

undefined. Tenant improvements

undefined. The building structure itself

Rationale: Land is explicitly excluded from commercial property coverage — it cannot be destroyed by fire or most other covered perils and has no insurable value for those purposes. The building, tenant improvements, and outdoor fixtures attached to the building are generally covered.

28. Under California's Good Driver Discount Law (Prop 103), an insurer must offer a discount to any driver who has been licensed for at least 3 years and has not had more than one at-fault accident or more than one violation in the past:

A. No lookback period

B. 1 year

C (correct). 3 years

D. 5 years

Rationale: The Good Driver Discount requires a 20% discount for drivers licensed 3+ years with no more than one at-fault accident or one violation in the past 3 years.

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29. Under the ISO Personal Auto Policy (PAP), Part A (Liability) covers which of the following?

- A (correct). Legal liability for bodily injury and property damage caused to others**
 - B. All named insureds who own more than two personal vehicles
 - C. Damage to the insured's own vehicle from a collision
 - D. Theft of the insured vehicle
- undefined. Medical expenses for the insured and passengers
undefined. Insureds whose spouse has their own separate auto policy
undefined. Insureds who want coverage extended to unlicensed household members
undefined. Corporate officers or employees provided a company car who have no personal PAP of their own

Rationale: Part A of the PAP covers the insured's legal liability for bodily injury and property damage caused to others in an auto accident. It pays defense costs and damages up to the policy limit. It does NOT cover damage to the insured's own vehicle (that is Part D — Physical Damage).

30. Under the PAP, rental reimbursement coverage pays for:

- A. Rental car liability coverage when the insured drives a rental vehicle
- B (correct). Rental car costs while the insured's covered vehicle is being repaired after a covered loss**
- C. Reimbursement for public transportation costs after any accident
- D. Rental car costs when the insured is on vacation

Rationale: Rental reimbursement coverage (an optional endorsement) pays a daily limit toward a rental car when the insured's covered vehicle is disabled due to a covered loss. It does not pay for rentals for general convenience or business use — the insured's car must be out of service due to a covered claim.

31. Under a California homeowners policy, "dwelling" coverage (Coverage A) is designed to insure:

- A. Personal property inside the home
- B (correct). The dwelling structure including attached structures, fixtures, and systems**
- C. All real and personal property owned by the insured
- D. Only the land and foundation

Rationale: Coverage A (dwelling) covers the structure of the home including attached structures, permanently installed fixtures, and systems. It does not cover separate structures (Coverage B) or personal property (Coverage C).

32. California requires drivers to carry minimum liability limits for auto insurance. The current minimum is:

- A. 25/50/10
- B (correct). 15/30/5**
- C. 100/300/50
- D. 10/20/10

Rationale: California's minimum auto liability requirement is 15/30/5: \$15,000 bodily injury per person, \$30,000 per accident, \$5,000 property damage. AB 1011 (2023) phases in increased minimums to 30/60/15 by 2035.

33. Which of the following BEST defines the principle of indemnity in insurance?

- A. The maximum amount an insurer will pay under a policy
 - B (correct). The insured is restored to the same financial position as before the loss, no better, no worse**
 - C. A condition that increases the probability or severity of a loss
 - D. The insurer pays the full replacement cost regardless of age
- undefined. The financial amount the insured must pay before insurance responds
undefined. The cause of a loss, such as fire, theft, or windstorm
undefined. The insurer profits from every policy that does not result in a claim
undefined. The insured receives a fixed benefit amount regardless of actual loss

Rationale: Indemnity means the insured is restored to approximately the same financial position they were in before the loss — no better, no worse. It prevents profiting from insurance. This distinguishes insurance from wagering and is the foundation of loss settlement.

34. California Proposition 103 (1988) requires that auto insurance rates be based primarily on which three mandatory rating factors in order of importance?

- A. Credit score, age, and ZIP code
- B. Gender, marital status, and occupation
- C. Miles driven, occupation, and age
- D (correct). Driving safety record, annual miles driven, years of driving experience — in that order**

Rationale: Prop 103 mandates that auto rates be based on (1) driving safety record, (2) annual miles driven, (3) years of driving experience as the three primary factors — in that order. Insurers may use other factors only if approved by CDI.

35. Under California's Fair Claims Settlement Practices Regulations, an insurer must acknowledge receipt of a claim within:

- A (correct). Paying covered claims when an admitted P&C insurer becomes insolvent**
 - B. Providing free insurance to low-income Californians
 - C. Covering claims against surplus lines insurers that become insolvent
 - D. 45 calendar days
- undefined. Regulating admitted insurer solvency on behalf of the CDI
undefined. 30 calendar days
undefined. 15 calendar days
undefined. 10 calendar days

Rationale: California Fair Claims Settlement Practices Regulations (Cal. Code Regs. tit. 10, § 2695.5) require insurers to acknowledge receipt of a claim within 15 calendar days, and to accept or deny the claim within 40 calendar days of receiving proof of claim. This timeline is strictly enforced by the CDI.

36. A personal watercraft (PWC) such as a Jet Ski is typically covered under a homeowners policy for liability purposes up to:

- A. Coverage only if the PWC is under 25 HP
- B (correct). No coverage — high-powered watercraft require a separate watercraft policy**
- C. Up to \$1,500 for liability only — physical damage is excluded
- D. Full liability and physical damage without restriction

Rationale: Standard homeowners policies exclude motorized watercraft above a certain horsepower (typically 50 HP). A personal watercraft (Jet Ski) exceeds this threshold and requires a separate watercraft or boat owner's policy for both liability and physical damage. The HO liability exclusion for high-powered watercraft is a common exam topic.

37. Under California law, when a personal lines property or casualty insurer non-renews a policy due to the insured living in a high-risk area (such as a wildfire zone), the insurer must:

- A. Transfer the policy to a state-run insurer without notice
- B (correct). Provide notice stating the reason, advise of the FAIR Plan, and inform the insured of appeal rights**
- C. Only provide notice if the insured specifically requests an explanation
- D. Cancel the policy immediately and issue a refund of unearned premium

Rationale: Cal. Ins. Code § 678.1 requires that when an insurer non-renews due to increased fire hazard or wildfire risk, the notice must specifically state the reason, advise the insured of the California FAIR Plan, and inform the insured of their right to appeal. This protects consumers in high-risk areas.

38. A waiver in an insurance contract refers to:

- A. The legal right of the insurer to recover from a negligent third party
- B. A court order forcing the insurer to honor a denied claim
- C (correct). The voluntary relinquishment of a known legal right by one party**
- D. A provision requiring the insured to maintain minimum coverage levels

Rationale: A waiver is the voluntary relinquishment of a known legal right by the insurer. For example, if an insurer continues to accept premiums knowing of a policy violation, it may have waived its right to deny the claim on that basis. Waiver differs from estoppel, which

is imposed by law to prevent injustice.

39. Under a PAP, "underinsured motorist" (UIM) coverage applies when:

- A. A passenger in the insured's vehicle is injured in an accident
- B (correct). The at-fault driver has no auto insurance and injures the insured**

C. The at-fault driver has no insurance at all

D. The insured's vehicle is stolen by an unidentified person

undefined. The at-fault driver's liability limits are insufficient to cover the insured's actual damages

undefined. The insured is at fault and injures another driver

undefined. The insured is at fault and injures an uninsured driver

undefined. The insured's own vehicle is damaged by an unidentified driver

Rationale: UIM coverage applies when the at-fault driver has liability insurance, but their limits are lower than the insured's damages. The UIM coverage pays the gap between the at-fault driver's policy limit and the insured's actual damages (up to the UIM limit). It is distinct from UM, which applies when the other driver has NO insurance.

40. The California Insurance Guarantee Association (CIGA) protects policyholders by:

A. 30 calendar days

B (correct). Paying covered claims when an admitted P&C insurer becomes insolvent

C. Providing free insurance to low-income Californians

D. 45 calendar days

undefined. 15 calendar days

undefined. 10 calendar days

undefined. Covering claims against surplus lines insurers that become insolvent

undefined. Regulating admitted insurer solvency on behalf of the CDI

Rationale: CIGA is the state insolvency fund for admitted property and casualty insurers. If an admitted P&C insurer becomes insolvent, CIGA steps in to pay covered claims up to statutory limits. CIGA does NOT cover surplus lines insurers, life/health insurers (those have their own guarantee fund), or claims against self-insurers.

41. Under an inland marine policy, a "floater" is used to insure:

A. Theft of inventory by a shoplifter

B. Fire damage caused by an arsonist

C. Real property located in a flood zone

D (correct). Embezzlement of company funds by a trusted employee

undefined. High-value movable property not adequately covered under a standard policy

undefined. Damage to the company's building caused by a break-in

undefined. Liability arising from transporting goods

undefined. Property permanently attached to a building

Rationale: Inland marine floaters provide scheduled (itemized) or blanket coverage for property that moves ("floats") from location to location — cameras, jewelry, musical instruments, contractors' equipment. Standard homeowners policies have sub-limits for these items, making a floater useful for higher-value movable property.

42. A landlord who owns a rental property and does NOT occupy it should purchase which type of policy?

A. Commercial property policy

B (correct). Additional costs above normal to continue or resume operations after a covered loss

C. The wages of employees laid off due to a business shutdown

D. HO-3 homeowners policy

undefined. The cost to repair or replace physically damaged business property

undefined. The net income lost when the business cannot operate after a covered loss

undefined. Tenant's package policy

undefined. DP dwelling policy

Rationale: A dwelling policy (DP series) is designed for non-owner-occupied residential properties. The DP-3 (Special Form) is the broadest. A homeowners policy requires the owner to reside in the dwelling. A commercial property policy is for business properties.

43. Under the ISO commercial property program, which of the following is covered under "outdoor property" without a specific endorsement?

- A. All causes of loss with no exclusions
- B. Only specific named perils listed in the policy
- C (correct). Trees, shrubs, and plants at a \$2,500 sublimit for specific named perils only**
- D. Fencing and landscaping up to \$10,000

Rationale: Most outdoor property — signs, fences, antennas, trees, shrubs, and plants — is excluded from or sub-limited under the standard BPP form. Coverage for these items requires either a specific endorsement or they are covered at a sublimit (e.g., \$2,500 for trees/shrubs) only for specific named perils.

44. The term "proximate cause" in insurance refers to:

- A. The last event in a chain of events leading to a loss
- B. Any contributing factor to a loss, regardless of significance
- C (correct). The dominant, efficient cause that sets a chain of events in motion**
- D. A cause of loss that is always excluded from coverage

Rationale: The proximate cause is the dominant, efficient cause that sets in motion a chain of events leading to a loss. Insurers use proximate cause analysis to determine whether a covered peril or an excluded peril caused a loss. If the proximate cause is covered, the loss is typically payable even if subsequent causes contributed.

45. The doctrine of utmost good faith (uberrimae fidei) in insurance contracts requires:

- A (correct). A pre-agreed fixed amount regardless of ACV at the time of loss**
- B. The insurer must accept any applicant regardless of risk
- C. The insurer alone bears the duty of disclosure
- D. The insured may withhold information that could raise their premium

Rationale: Insurance contracts are contracts of utmost good faith — both parties, but especially the applicant, must disclose all material facts honestly. Concealment of a material fact (one that would affect the insurer's decision to insure or the premium charged) can void the policy.

46. A property insurance policy has a \$500 straight deductible and a covered loss of \$3,200. How much will the insurer pay?

- A. \$500
- B. \$3,200
- C (correct). The insurer's prior conduct led the insured to reasonably believe a claim was covered, and the insured relied on that belief**
- D. The insured misrepresented facts on the application

Rationale: With a straight (also called "flat") deductible, the insured absorbs the first \$500 of any covered loss and the insurer pays the remainder. $\$3,200 - \$500 = \$2,700$. This is the most

common deductible structure in property insurance.

47. Which of the following perils is specifically EXCLUDED from a standard HO-3 homeowners policy?

A. Fire

B (correct). Arising from the insured's business pursuits or professional services

C. Arising from the insured's personal recreational activities

D. Caused by a guest falling on the insured's driveway

undefined. Flood

undefined. Windstorm

undefined. Theft

undefined. Caused by a covered peril on the insured premises

Rationale: Flood is a standard exclusion under all ISO homeowners forms (HO-2, HO-3, HO-5). Flood coverage must be purchased separately through the National Flood Insurance Program (NFIP) or a private flood insurer. Fire, theft, and windstorm are covered perils.

48. The Causes of Loss — Special Form under the ISO commercial property program covers:

A. Only specific named perils listed in the policy

B (correct). Trees, shrubs, and plants at a \$2,500 sublimit for specific named perils only

C. All causes of loss except those specifically excluded

D. Fencing and landscaping up to \$10,000

undefined. All causes of loss with no exclusions

undefined. The building's exterior walls and foundation

undefined. A permanently installed outdoor sign

undefined. Only fire and lightning perils

Rationale: The Causes of Loss — Special Form (equivalent to "open perils" or "all-risk") covers all causes of loss except those specifically excluded. This is the broadest commercial property coverage form, contrasted with the Basic Form (named perils) and Broad Form (expanded named perils).

49. California's Low Cost Automobile Insurance Program (CLCA) is designed to provide affordable minimum liability coverage to:

A. High-risk drivers with multiple DUI convictions

B (correct). Income-eligible drivers with a clean record who are continuously licensed

C. Commercial vehicle operators who cannot afford standard rates

D. All uninsured motorists in California regardless of income

Rationale: The California Low Cost Automobile Insurance Program (CLCA), administered by the CDI, provides affordable minimum-limits auto liability coverage to income-eligible drivers who have been continuously licensed for 3+ years with a clean record. The program was created by Cal. Ins. Code § 11629.7.

50. California's Proposition 103, passed in 1988, primarily affected the property and casualty insurance industry by:

A. Creating a state-run auto insurance monopoly

B. Mandating coverage for all California drivers at no cost

C. Natural disasters that the insured could have prevented

D. Deregulating auto insurance rates and eliminating government oversight

undefined. Acts of negligence by a third party

undefined (correct). The willful act of the insured

undefined. Requiring prior approval of rate increases and mandating a good driver discount

undefined. Accidental acts of the insured

Rationale: Proposition 103 was a landmark voter initiative that rolled back auto insurance rates, required prior approval of future rate increases by the Insurance Commissioner, and mandated the good driver discount. It fundamentally changed how P&C insurance is regulated in California.

51. Under a "valued policy" for property insurance, the insurer pays:

- A. The lesser of ACV or the cost to rebuild
- B. The replacement cost minus depreciation
- C. The insurer must accept any applicant regardless of risk

D (correct). A pre-agreed fixed amount regardless of ACV at the time of loss

undefined. The actual cash value of the property at the time of loss
undefined. The insured may withhold information that could raise their premium
undefined. Both parties must fully and honestly disclose all material facts
undefined. The insurer alone bears the duty of disclosure

Rationale: A valued policy specifies a fixed agreed amount to be paid in the event of a total loss, regardless of the property's actual cash value at the time of loss. Several states (though not California for all lines) have valued policy laws. This contrasts with an "open policy" where the insured must prove the actual loss amount.

52. A property insurance policy is considered a "personal contract" because:

- A. Subrogation rights
- B. It is owned collectively by all policyholders in a pool
- C. It is only valid for the personal use of the named insured's family
- D. It covers all property within a specific geographic territory

undefined (correct). It cannot be transferred to another party without the insurer's consent

undefined. Adhesion
undefined. Insurable interest
undefined. Proximate cause

Rationale: Property insurance is a personal contract between the insurer and the specific insured — it cannot be transferred (assigned) to another party without the insurer's written consent. This is why, when a property is sold, the buyer must obtain their own policy rather than simply taking over the seller's policy.

53. Which of the following losses would be covered under the "other than collision" (OTC/ comprehensive) section of a PAP?

A (correct). The insured's car striking a deer

- B. Rental car costs while the vehicle is being towed
 - C. Rear-ending a parked car
 - D. The insured's car flipping over on a highway
- undefined. A head-on collision with another vehicle
undefined. Towing to the nearest repair facility and labor at the disablement site
undefined. The cost to repair mechanical breakdown at a service center
undefined. Any roadside expense including fuel delivery and locksmith services

Rationale: Comprehensive ("other than collision") covers damage from non-collision causes: theft, fire, flood, hail, falling objects, vandalism, and animal strikes. A car striking a deer is a comprehensive (not collision) loss — the car hits an animal, not another vehicle or object.

54. Under California law, an insurer issuing a personal lines homeowners or auto policy must offer the insured the right to resolve disputes through which alternative process before filing a lawsuit?

- A. Filing a complaint with the NAIC
 - B. The insured's annual miles driven
 - C. Mediation through the CDI
 - D. The insured's years of driving experience
- undefined (correct). Binding arbitration as an alternative to litigation**
undefined. A formal jury trial only
undefined. The insured's ZIP code or territory of residence
undefined. The insured's driving safety record

Rationale: California requires insurers to offer an appraisal process for disputed property claims and, for certain personal lines, arbitration. However, the California Insurance Code specifically requires that personal auto and homeowners insurers make binding arbitration available as an alternative to litigation for coverage disputes, promoting faster resolution.

55. The California Low Cost Automobile Insurance Program (CLCA) provides liability coverage to income-eligible drivers. The minimum liability limits under CLCA are:

- A. No liability coverage — only collision
- B (correct). 10/20/3 minimum limits**
- C. 25/50/5 minimum limits
- D. 15/30/5 same as standard minimum

Rationale: The CLCA program (Prop 17 vehicle) provides 10/20/3 minimum limits — lower than standard minimums — to make coverage accessible to low-income drivers who might otherwise go uninsured.

56. The "agreed value" option on a commercial property policy:

- A. Allows the insurer to negotiate the settlement amount after the loss
- B. Doubles the coinsurance requirement to 160%
- C. Is available only for residential properties
- D (correct). Suspends the coinsurance clause — insurer pays agreed value in full for a total loss**

Rationale: The agreed value option suspends the coinsurance clause entirely. The insurer and insured agree on the property's value at policy inception, and in the event of a total loss, the insurer pays the full agreed amount with no coinsurance penalty. This is ideal for unique or hard-to-value properties.

57. A personal umbrella policy typically requires the insured to maintain which of the following as a condition of coverage?

- A. No deductibles on any underlying policy
- B. Payment of all claims from a dedicated escrow account
- C. Proof of vehicle registration and a clean driving record
- D (correct). Minimum specified liability limits on underlying auto and homeowners policies**

Rationale: Personal umbrella policies require the insured to maintain specified minimum limits on underlying policies (typically \$300,000/\$500,000 on the PAP and \$300,000 on the homeowners). If the insured drops below these minimums, the umbrella may not respond, or the insured must pay the difference out-of-pocket.

58. Additional Living Expense (ALE) coverage under a homeowners policy pays for:

- A (correct). Replicating the original features of an older building would cost far more than a modern functional equivalent**
 - B. The insured's mortgage or rent payments during repair
 - C. Repair costs for a second residence while the primary home is repaired
 - D. The additional living costs above normal when a home is uninhabitable after a covered loss
- undefined. The full cost of temporary housing regardless of normal living expenses
- undefined. The insured wants to insure the building at its market value rather than replacement cost
- undefined. A newer building has appreciated significantly in value
- undefined. The insured cannot afford full replacement cost insurance

Rationale: ALE (Coverage D) pays the additional costs — over and above normal living expenses — that the insured incurs when a covered loss makes the home uninhabitable. Examples include hotel bills and restaurant meals. It does not pay mortgage or rent on the damaged home itself.

59. A "moral hazard" in insurance refers to:

- A. Contribution
 - B. A physical condition on insured property that increases the chance of loss
 - C. The tendency of insured persons to be careless because they have insurance
 - D. Salvage
- undefined. Arbitration
- undefined. The risk that premiums will be insufficient to cover future losses
- undefined (correct). Subrogation**
- undefined. An increased risk of loss arising from the dishonest character or fraudulent intent

of the insured

Rationale: Moral hazard is the increased risk of loss that arises from the dishonest character or intent of the insured — e.g., an insured who might exaggerate a claim or deliberately cause a loss because they are insured. It is distinguished from morale hazard (carelessness due to having insurance) and physical hazard (physical conditions).

60. Under ISO commercial property forms, the "functional replacement cost" valuation method is used when:

A. The insured's mortgage or rent payments during repair

B. The insured cannot afford full replacement cost insurance

C (correct). The additional living costs above normal when a home is uninhabitable after a covered loss

D. The full cost of temporary housing regardless of normal living expenses

undefined. The insured wants to insure the building at its market value rather than replacement cost

undefined. A newer building has appreciated significantly in value

undefined. Replicating the original features of an older building would cost far more than a modern functional equivalent

undefined. Repair costs for a second residence while the primary home is repaired

Rationale: Functional replacement cost applies when an older building with obsolete features (e.g., ornate plasterwork, solid-brick construction) is damaged. Instead of paying the full cost to replicate those features, the insurer pays the cost of a functionally equivalent modern replacement — typically less expensive.

61. The "concurrent causation" doctrine in property insurance became significant in California after the 1994 Northridge earthquake because:

A. Courts required insurers to cover losses that were entirely caused by excluded earthquake damage

B. The California legislature mandated earthquake coverage in all HO policies after Northridge

C. The insurer replaces the entire set when one item is damaged

D (correct). Partial damage reduces the value of the whole set and the insurer pays only the value difference

undefined. Insurers were required to offer replacement cost coverage for all earthquake losses

undefined. Courts held that if a covered peril contributed to a loss alongside an excluded peril, the entire loss might be covered

undefined. Matching items are excluded from coverage entirely

undefined. The insurer pays full value for the lost item and the insured keeps the remaining set

Rationale: The concurrent causation doctrine holds that if a covered peril and an excluded peril combine to cause a loss, the entire loss may be covered if the covered peril is proximate. California courts initially applied this broadly after Northridge (where earthquake — excluded — combined with covered fire). Insurers responded by adding anti-concurrent causation language to exclusions.

62. The "ordinance or law" endorsement on a property policy covers:

A. \$100,000

B. The cost to demolish and rebuild a structurally sound but undamaged portion of the building

C. Replacement of ordinance-compliant materials that were damaged

D. \$80,000

undefined (correct). Additional costs required to bring a repaired building up to current building codes

undefined. The insured's legal costs to dispute a building permit denial

undefined. \$75,000
undefined. \$93,750

Rationale: Standard property policies cover the cost to restore a building to its pre-loss condition. If local building codes require upgrades (e.g., updated electrical, seismic retrofitting) when repairing a damaged building, those additional costs are NOT covered without an ordinance or law endorsement.

63. Uninsured motorist (UM) coverage under a California auto policy provides benefits when:

- A. A passenger in the insured's vehicle is injured in an accident
 - B (correct). The at-fault driver's liability limits are insufficient to cover the insured's actual damages**
 - C. The at-fault driver has no auto insurance and injures the insured
 - D. The insured's vehicle is stolen by an unidentified person
- undefined. The insured is at fault and injures another driver
undefined. The at-fault driver has no insurance at all
undefined. The insured is at fault and injures an uninsured driver
undefined. The insured's own vehicle is damaged by an unidentified driver

Rationale: UM coverage pays the insured's damages (bodily injury and, if purchased, property damage) when the at-fault driver has no insurance. California requires insurers to offer UM coverage equal to the liability limits. Underinsured motorist (UIM) coverage applies when the at-fault driver's limits are insufficient.

64. California's Insurance Frauds Prevention Act (Cal. Ins. Code § 1871) imposes penalties for insurance fraud including:

- A. Policy cancellation and a five-year ban from purchasing insurance
- B (correct). Felony criminal penalties and civil penalties including treble damages**
- C. Only a written warning for a first offense
- D. Mandatory community service with no criminal record

Rationale: Cal. Ins. Code § 1871 establishes the Insurance Frauds Prevention Act and provides for both criminal penalties (felony charges, imprisonment, and fines) and civil penalties (treble damages up to \$150,000 per fraudulent act). The CDI's Fraud Division investigates and refers cases for prosecution.

65. Under the ISO PAP, the "drive other car" (DOC) endorsement is needed when:

- A. All named insureds who own more than two personal vehicles
 - B (correct). Legal liability for bodily injury and property damage caused to others**
 - C. Insureds whose spouse has their own separate auto policy
 - D. Insureds who want coverage extended to unlicensed household members
- undefined. Theft of the insured vehicle
undefined. Corporate officers or employees provided a company car who have no personal PAP of their own
undefined. Damage to the insured's own vehicle from a collision
undefined. Medical expenses for the insured and passengers

Rationale: The standard PAP automatically extends coverage when the named insured or spouse drives a non-owned vehicle with permission. However, a DOC endorsement is specifically needed for corporate officers or employees who are provided a company car and do NOT own a personal vehicle — they have no personal PAP to cover them when driving other cars.

66. An insured uses their personal vehicle to deliver food for a rideshare delivery app. Under the standard PAP, this use:

- A. Fire, theft, or vandalism
 - B. Animal strikes and falling objects
 - C (correct). Contact with another vehicle, an object, or the vehicle overturning**
 - D. Is fully covered under the standard PAP as a personal use activity
- undefined. Any accidental damage regardless of cause
undefined. Is covered only if the insured has collision coverage

undefined. Triggers the livery/commercial use exclusion and is not covered under the standard PAP

undefined. Is covered under Coverage C (medical payments) only

Rationale: Personal auto policies typically exclude coverage for vehicles being used to carry persons or property for a fee (livery). Using a personal vehicle for commercial delivery (food, packages) triggers this exclusion. Drivers need a rideshare endorsement or commercial auto coverage for those periods.

67. California Insurance Code Section 790.03 prohibits which of the following insurer behaviors?

- A. Offering a multi-policy discount to policyholders
- B (correct). Misrepresenting policy terms and failing to promptly acknowledge claims**
- C. Requiring a medical exam before issuing life insurance
- D. Charging premiums that vary by ZIP code

Rationale: California Insurance Code Section 790.03 enumerates specific unfair business practices in insurance, including misrepresenting policy terms, failing to acknowledge claims promptly, and refusing to pay claims without conducting a reasonable investigation. These are known as Unfair Claims Settlement Practices.

68. Under California law, an insurer must offer earthquake coverage to California homeowners as a separate policy or endorsement. This requirement is administered by:

- A (correct). The California Earthquake Authority (CEA)**
- B. FEMA's National Earthquake Insurance Program
- C. The insurer's parent company with federal backing
- D. The California Department of Insurance directly

Rationale: California requires insurers that write residential property insurance to offer earthquake coverage through the California Earthquake Authority (CEA) or directly. The CEA is a publicly managed, privately funded entity that provides earthquake insurance to California homeowners. Insurers can sell CEA policies as agents.

69. Under the PAP, "collision" coverage (Part D) pays for damage to the insured's vehicle caused by:

- A. Is covered under Coverage C (medical payments) only
 - B. Fire, theft, or vandalism
 - C. Animal strikes and falling objects
 - D. Is fully covered under the standard PAP as a personal use activity
- undefined (correct). Contact with another vehicle, an object, or the vehicle overturning**
- undefined. Is covered only if the insured has collision coverage
- undefined. Triggers the livery/commercial use exclusion and is not covered under the standard PAP
- undefined. Any accidental damage regardless of cause

Rationale: Collision coverage pays for damage to the insured's own vehicle resulting from contact with another vehicle or object, or from the vehicle overturning. It is a specific, named cause of loss — not "other than collision" (comprehensive). A deductible typically applies.

70. A California personal lines agent who knowingly misrepresents a policy's benefits to a client may be subject to which of the following consequences?

- A. No consequences if the misrepresentation was unintentional
- B (correct). License revocation or suspension, fines, and possible criminal referral**
- C. A mandatory continuing education requirement only
- D. A formal apology to the affected client

Rationale: Knowingly misrepresenting policy benefits violates the California Insurance Code and constitutes an unfair or deceptive act. The California Department of Insurance can revoke or suspend the agent's license, impose fines, and refer the matter for criminal prosecution in egregious cases.

71. Under California law, an insurer wishing to increase personal auto insurance rates must:

- A. Any notice provided after the policy expiration date is automatically late
- B. Simply notify policyholders 30 days before the rate takes effect
- C. Apply to the federal government for interstate rate approval
- D (correct). Obtain prior approval from the California Insurance Commissioner before the increase takes effect**

undefined. File rates with the CDI and use them immediately without waiting for approval
undefined. The insured failed to report the claim in writing rather than orally
undefined. The insured's late notice actually prejudiced the insurer's ability to investigate or defend
undefined. The insured filed the claim more than 30 days after the loss

Rationale: Under Proposition 103 (Cal. Ins. Code § 1861.01), property and casualty rate increases above a certain threshold must receive prior approval from the California Insurance Commissioner before they can take effect. This "prior approval" system distinguishes California from most other states that use a "file and use" or "use and file" system.

72. Which of the following rating factors is PROHIBITED under California law for personal auto insurance?

- A. A formal jury trial only
 - B. The insured's driving safety record
 - C (correct). The insured's ZIP code or territory of residence**
 - D. Binding arbitration as an alternative to litigation
- undefined. The insured's years of driving experience
undefined. The insured's annual miles driven
undefined. Filing a complaint with the NAIC
undefined. Mediation through the CDI

Rationale: Proposition 103 (Cal. Ins. Code § 1861.02) prohibits the use of ZIP code, neighborhood, or territory as a primary rating factor for personal auto insurance. The three mandatory primary factors are: driving safety record, annual miles driven, and years of driving experience.

73. California's "good driver discount" law requires insurers to offer a discount to drivers who:

- A. Have maintained continuous insurance for the past 5 years
- B. Have driven for more than 10 years without any violations
- C. Have completed a state-approved defensive driving course
- D (correct). Have no at-fault accidents and no more than one point in the past 3 years, and have been licensed for 3+ years**

Rationale: California Insurance Code § 1861.025 (Prop 103) requires insurers to offer at least a 20% good driver discount to drivers who have been licensed for 3 or more years with no at-fault accidents and no more than one point on their driving record in the past 3 years.

74. Under California law, when a personal auto insurance policy is cancelled mid-term for reasons other than non-payment, the insurer must give how many days notice?

- A. 30 days
- B. 45 days
- C. 10 days
- D (correct). 20 days**

Rationale: California Insurance Code Section 661 requires 20 days notice for mid-term cancellation for reasons other than non-payment (non-payment requires only 10 days notice).

75. Which of the following is the CORRECT description of the "insuring agreement" section of an insurance policy?

- A (correct). Renters who do not own the dwelling**
 - B. The declarations page identifying the insured and premium amount
 - C. The insurer's promise to pay and the scope of what is covered
 - D. Owners of mobile homes
- undefined. A list of property excluded from coverage under the policy
undefined. The duties the insured must perform after a loss

undefined. Condo unit owners
undefined. Owners of older historic homes

Rationale: The insuring agreement is the insurer's promise to pay — it defines the scope of coverage, what events are covered, and who is covered. It is the heart of the policy. Exclusions limit the insuring agreement; conditions set the duties; declarations identify the parties and limits.

76. Under the PAP, the "named non-owner" endorsement is used to provide coverage for:

- A. Named insureds who want coverage for a second vehicle
- B (correct). Persons who drive but do not own a vehicle**
- C. Business owners who use their personal car for deliveries
- D. Unlicensed family members who occasionally drive

Rationale: The named non-owner endorsement provides liability and other PAP coverages to individuals who frequently drive cars they don't own (e.g., someone who doesn't own a car but regularly borrows or rents vehicles). It fills the gap when the car owner's policy doesn't extend sufficient coverage.

77. Which of the following is an example of "risk avoidance" as a risk management technique?

- A. Adhesion
- B. Setting aside reserves to self-insure against small losses
- C. Reformation
- D. Estoppel

undefined. Purchasing insurance to transfer the financial risk of loss

undefined (correct). A company deciding not to manufacture a dangerous product to eliminate that risk

entirely

undefined. Installing sprinklers to reduce the severity of a fire loss

undefined. Contra proferentem

Rationale: Risk avoidance means eliminating the exposure entirely — not engaging in the activity that creates the risk. A company deciding not to manufacture a hazardous product removes that risk entirely. Risk reduction (loss control), risk transfer (insurance), and risk retention (self-insurance) are other techniques.

78. Business income (business interruption) coverage under a commercial property policy pays for:

- A. A retail store with a large cash register
- B. The cost of relocating the business to a temporary location
- C (correct). The net income and continuing operating expenses lost during a covered suspension of**

business

- D. A construction company whose equipment sits outside
- undefined. Extra expenses to continue operating above normal costs
- undefined. A restaurant or grocery store that relies on refrigeration for perishable inventory
- undefined. A law firm that handles confidential client files
- undefined. The cost to repair or replace the physically damaged building or equipment

Rationale: Business income coverage replaces the net income (profit) and continuing normal operating expenses (like payroll, rent, utilities) that a business loses when operations are suspended due to a covered property loss. It does NOT pay to repair the damaged property — that is building coverage.

79. Uninsured Motorist (UM) coverage in California is required to be offered with every auto liability policy. The insured may reject it in writing. UM coverage protects against:

- A. Property damage to the insured's home caused by an uninsured neighbor
- B. Medical expenses for the insured regardless of fault
- C. Damage the insured causes to their own vehicle
- D (correct). Bodily injury to the insured caused by an at-fault driver with no liability insurance**

Rationale: UM coverage pays the insured for bodily injury caused by an at-fault driver who has no

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liability insurance. California also requires offering Underinsured Motorist (UIM) coverage.

80. Which of the following is NOT a required element of an insurable risk?

- A. A third-party contractor causes a covered loss to the insured's property
 - B. There must be a large number of similar exposure units
 - C (correct). A life insurance policy pays a death benefit after the insured dies**
 - D. The loss must be accidental from the insured's standpoint
- undefined. An at-fault driver damages the insured's vehicle
undefined. The insured negligently causes damage to a neighbor's property
undefined. The loss must be measurable in financial terms
undefined. The loss must be intentionally caused by a third party

Rationale: An insurable risk must be accidental, measurable, not catastrophic for the insurer, and involve a large number of similar exposure units (law of large numbers). A risk does not need to be intentional — in fact, intentional losses are generally excluded. The requirement is that the loss must be fortuitous (accidental) from the insured's standpoint.

81. Under the ISO Commercial Property policy (Building and Personal Property Coverage Form), "business personal property" includes all of the following EXCEPT:

- A. Premiums are lower because fewer locations are covered
 - B (correct). Land on which the building sits**
 - C. Furniture and equipment owned by the business
 - D. Coverage is restricted to the named insured's primary location only
- undefined. Inventory held for sale
undefined. Each location or property item is assigned its own separate limit
undefined. A single limit applies across multiple locations or property categories
undefined. Tenant improvements and betterments

Rationale: Business personal property (BPP) covers furniture, fixtures, machinery, equipment, and inventory. It does NOT include the building itself (that is Building coverage), land, or accounts receivable (which require a separate inland marine floater). Money and securities are also excluded from BPP.

82. Which of the following is a characteristic of "blanket" property coverage compared to "specific" coverage?

- A. Premiums are lower because fewer locations are covered
 - B. Inventory held for sale
 - C. Coverage is restricted to the named insured's primary location only
 - D. Tenant improvements and betterments
- undefined (correct). A single limit applies across multiple locations or property categories**
undefined. Furniture and equipment owned by the business
undefined. Each location or property item is assigned its own separate limit
undefined. Land on which the building sits

Rationale: Blanket coverage insures multiple locations or categories of property under a single limit. If one location suffers a large loss, unused limits from other locations are available. Specific coverage assigns a separate limit to each location or property item — simpler to administer but offers no cross-location flexibility.

83. Under a standard PAP, which of the following vehicles is generally NOT covered under the "covered auto" definition without a specific endorsement?

- A. A minivan used for personal transportation
- B. A newly acquired private passenger car
- C (correct). A motorcycle**
- D. A pickup truck owned by the named insured

Rationale: Motorcycles are NOT covered under a standard PAP — they require a separate motorcycle policy. The PAP covers private passenger autos, pickups, and vans owned or newly acquired

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by the named insured. ATVs and RVs also typically require separate policies.

84. Under California's Earthquake Brace and Bolt (EBB) program, homeowners may receive financial assistance to:

- A. Replace windows with double-pane glass
- B (correct). Retrofit older wood-frame homes with cripple walls to reduce earthquake damage**
- C. Install fire sprinkler systems
- D. Add hurricane straps to the roof

Rationale: The EBB program provides grants of up to \$3,000 to retrofit older wood-frame homes with cripple walls, reducing earthquake damage risk and potentially lowering earthquake insurance premiums.

85. A California personal umbrella policy (PUP) provides coverage that:

- A (correct). Provides excess liability above underlying limits and may cover gaps in underlying policies**
- B. Replaces the underlying homeowners and auto policies entirely
- C. Requires no underlying coverage to be in force
- D. Covers only property damage, not bodily injury

Rationale: A personal umbrella policy provides excess liability coverage above the underlying limits of auto and homeowners policies, and may also cover certain claims excluded by those underlying policies.

86. Under the commercial property "causes of loss — basic form," which of the following perils is NOT covered?

- A (correct). Theft**
 - B. Windstorm and hail
 - C. Covered only if caused by a named storm
 - D. A covered peril requiring no endorsement
- undefined. A standard exclusion requiring separate coverage or an endorsement
undefined. Fire
undefined. Vandalism
undefined. Automatically covered under HO-3 in California by state law

Rationale: The Basic Form covers 11 named perils: fire, lightning, explosion, windstorm/hail, smoke, aircraft/vehicles, riot/civil commotion, vandalism, sprinkler leakage, sinkhole collapse, and volcanic action. Theft is NOT a Basic Form peril — it is added in the Broad Form. The Special Form (open perils) covers theft.

87. A "participating" insurance policy is one in which:

- A. The insured participates in setting their own premium
 - B (correct). Policyholders may share in the insurer's profits through dividends**
 - C. Mutual insurer
 - D. Reciprocal exchange
- undefined. Stock insurer
undefined. Lloyd's association
undefined. Claims are settled by an independent panel that includes the insured
undefined. Coverage automatically renews each year without premium increases

Rationale: Participating policies are issued by mutual insurers (and some stock companies) — policyholders may receive dividends if the company's losses and expenses are lower than expected. Dividends are not guaranteed and represent a return of excess premium. Non-participating policies do not pay dividends.

88. Under California's Automobile Assigned Risk Plan (CAARP), coverage is made available to:

- A. Drivers with clean records who want lower premiums
- B (correct). High-risk drivers who cannot obtain insurance in the voluntary market**
- C. Government employees who require specialized auto coverage
- D. Out-of-state drivers who are new to California

Rationale: The California Automobile Assigned Risk Plan (CAARP) is the insurer of last resort for high-risk drivers who cannot obtain auto insurance in the voluntary market. Premiums are higher than standard market rates to reflect the elevated risk.

89. A "spoilage" endorsement to a commercial property policy would be most important for:

- A. A retail store with a large cash register
- B. Extra expenses to continue operating above normal costs
- C (correct). The net income and continuing operating expenses lost during a covered suspension of business**
- D. A restaurant or grocery store that relies on refrigeration for perishable inventory

undefined. The cost of relocating the business to a temporary location
undefined. A law firm that handles confidential client files
undefined. The cost to repair or replace the physically damaged building or equipment
undefined. A construction company whose equipment sits outside

Rationale: Spoilage coverage pays for loss of perishable goods (food, pharmaceuticals, cut flowers) due to a covered breakdown of refrigeration or temperature-control equipment. Standard property policies cover only direct physical damage from covered perils — not spoilage unless specifically endorsed.

90. California's "notice-prejudice" rule (Cal. Ins. Code § 554) provides that an insurer may deny a late claim only if:

- A. Simply notify policyholders 30 days before the rate takes effect
- B. The insured filed the claim more than 30 days after the loss
- C (correct). The insured's late notice actually prejudiced the insurer's ability to investigate or defend**
- D. Apply to the federal government for interstate rate approval
undefined. File rates with the CDI and use them immediately without waiting for approval
undefined. Any notice provided after the policy expiration date is automatically late
undefined. Obtain prior approval from the California Insurance Commissioner before the increase takes effect
undefined. The insured failed to report the claim in writing rather than orally

Rationale: Under Cal. Ins. Code § 554 and the California Supreme Court's decision in *Clemmer v. Hartford*, an insurer cannot deny a claim solely for late notice unless it can demonstrate actual prejudice from the delay. This is more protective of insureds than many other states' strict notice requirements.