



# California Property and Casualty Insurance

Solution key

April 6, 2026

Official exam page

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1. The "contractual liability" exclusion in a CGL policy excludes coverage for:

- A (correct). Liability assumed under contracts, except for qualifying "insured contracts"**
- B. Liability for breach of warranty on the insured's products
- C. All contractual liabilities assumed by the insured under any agreement
- D. All personal injury claims arising from the insured's contracts

Rationale: The CGL contractual liability exclusion eliminates coverage for liability the insured assumed under a contract, EXCEPT for "insured contracts" (e.g., leases, easements, indemnity agreements in construction contracts). Most standard hold-harmless agreements qualify as insured contracts and are therefore covered.

2. Under the standard ISO Homeowners HO-3 policy, the dwelling (Coverage A) is insured on which basis?

- A (correct). Open perils for the dwelling, named perils for personal property**
- B. Named perils for both dwelling and personal property
- C. Named perils for the dwelling, open perils for personal property
- D. Open perils for both dwelling and personal property

Rationale: The HO-3 is the most common homeowners form. It covers the dwelling (Coverage A) and other structures (Coverage B) on an open-perils ("all-risk") basis — all causes of loss are covered except those specifically excluded. Personal property (Coverage C) is covered on a named-perils basis under HO-3.

3. A "vacancy" provision in a commercial property policy typically reduces or eliminates coverage after the building has been vacant for:

- A. 30 consecutive days
- B. 90 consecutive days
- C (correct). 60 consecutive days**
- D. 120 consecutive days

Rationale: ISO commercial property policies contain a vacancy clause that reduces coverage (excluding vandalism, sprinkler leakage, glass breakage, and water damage) or imposes a coverage reduction after 60 consecutive days of vacancy. Vacancy is different from unoccupancy — a building is vacant when it lacks both contents and occupants.

4. Under the Workers' Compensation policy, benefits typically include all of the following EXCEPT:

- A. Death benefits to the worker's dependents
- B (correct). Pain and suffering damages**
- C. Temporary disability wage replacement
- D. Medical expense benefits

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Rationale: Standard workers' comp benefits include medical expenses, temporary disability (lost wages), permanent disability, vocational rehabilitation, and death benefits to survivors. Pain and suffering (non-economic damages) are NOT available under workers' comp — the system substitutes guaranteed statutory benefits for the right to sue the employer.

5. A landlord who owns a rental property and does NOT occupy it should purchase which type of policy?
- A. Commercial property policy
  - B. Tenant's package policy
  - C (correct). DP dwelling policy**
  - D. HO-3 homeowners 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.

6. Which of the following is NOT a standard coverage part of the ISO Commercial General Liability (CGL) policy?
- A. Coverage A — Bodily Injury and Property Damage
  - B. Coverage B — Personal and Advertising Injury
  - C. Coverage C — Medical Payments
  - D (correct). Professional Liability (Errors and Omissions)**

Rationale: The three standard CGL coverage parts are: Coverage A (Bodily Injury and Property Damage), Coverage B (Personal and Advertising Injury), and Coverage C (Medical Payments). Professional liability (E&O) is NOT included in the standard CGL — it requires a separate policy or endorsement.

7. Which of the following is an example of "risk avoidance" as a risk management technique?
- A. Purchasing insurance to transfer the financial risk of loss
  - B (correct). A company deciding not to manufacture a dangerous product to eliminate that risk entirely**
  - C. Setting aside reserves to self-insure against small losses
  - D. Installing sprinklers to reduce the severity of a fire loss

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.

8. Under the concept of "estoppel," an insurer may be prevented from denying a claim when:
- A (correct). The insurer's prior conduct led the insured to reasonably believe a claim was covered, and the insured relied on that belief**
  - B. The loss was caused by an excluded peril
  - C. The insured failed to pay premium on time
  - D. The insured misrepresented facts on the application

Rationale: Estoppel is an equitable doctrine that prevents a party from taking a position inconsistent with prior conduct that another party relied on to their detriment. If an insurer's actions led the insured to reasonably believe a claim would be covered, and the insured relied on that belief, the insurer may be estopped from later denying coverage.

9. Under a homeowners policy, the "medical payments to others" (Coverage F) provision:
- A (correct). Pays medical expenses of third parties injured on the premises regardless of fault**
  - B. Requires proof of negligence before paying any medical expenses
  - C. Covers household residents injured in accidents at home
  - D. Pays the insured's own medical bills after an accident

Rationale: Coverage F (Medical Payments to Others) pays the medical expenses of guests or third parties injured on the insured's premises — regardless of fault. It is a no-fault, goodwill coverage with low limits (typically \$1,000–\$5,000). It does not cover the insured or household residents.

10. Which of the following coverages is an example of a "named perils" policy?

- A. An umbrella liability policy with no exclusions
- B (correct). A basic dwelling policy DP-1 covering only fire, lightning, and internal explosion**
- C. A commercial package policy covering all business risks
- D. A homeowners HO-3 policy covering all perils except those excluded

Rationale: A named perils policy covers only those specific perils listed in the policy (e.g., fire, lightning, windstorm). The burden is on the insured to prove the loss was caused by a listed peril. An "open perils" (or "all-risk") policy covers all causes of loss except those specifically excluded.

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

- A. Medical expenses for the insured and passengers
- B. Theft of the insured vehicle
- C. Damage to the insured's own vehicle from a collision
- D (correct). Legal liability for bodily injury and property damage caused to others**

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).

12. California's mandatory minimum auto liability limits are expressed as 15/30/5. This means:

- A (correct). \$15,000 per person / \$30,000 per accident / \$5,000 property damage**
- B. \$30,000 per person / \$60,000 per accident / \$15,000 property damage
- C. \$25,000 per person / \$50,000 per accident / \$10,000 property damage
- D. \$15,000 per accident / \$30,000 per person / \$5,000 property damage

Rationale: California Vehicle Code § 16056 requires minimum liability limits of \$15,000 per person / \$30,000 per accident for bodily injury, and \$5,000 for property damage. These are the minimum required; higher limits are strongly recommended. As of 2025, California is phasing in higher minimums.

Code: Cal. Ins. Code § 11580.1b

13. A homeowner has an HO-3 policy with \$300,000 Coverage A. The home has a replacement cost of \$400,000. Under the coinsurance provision, if a \$100,000 partial loss occurs, how much will the insurer pay (ignoring any deductible)?

- A. \$80,000
- B. \$100,000
- C. \$75,000
- D (correct). \$93,750**

Rationale: HO-3 coinsurance: insured carried \$300,000 / required 80% of \$400,000 (\$320,000) = 93.75% coverage ratio. Payment =  $(300,000/320,000) \times \$100,000 = \$93,750$ . The insured bears the \$6,250 shortfall as a co-insurer because they failed to meet the 80% requirement.

14. Under the ISO Commercial Auto policy, "hired auto" liability coverage protects the insured against liability arising from:

- A. Autos owned by the business that are involved in accidents
- B. Damage to autos being repaired at the insured's facility
- C. Autos owned by employees used for personal errands
- D (correct). Autos leased, rented, or hired by the insured for business use**

Rationale: Hired auto coverage under commercial auto policies covers liability for autos leased, hired, rented, or borrowed by the insured for business use. Non-owned auto coverage covers liability when employees use their personal vehicles for business. Both are important for businesses that don't own a fleet but use vehicles.

15. The canon of insurance contracts that states insurance policies are written by the insurer and therefore any ambiguity is interpreted against the insurer is called:

- A. Estoppel
- B. Adhesion
- C (correct). Contra proferentem**
- D. Reformation

Rationale: Contra proferentem ("against the offeror") means that because the insurer drafts the policy language, any ambiguity or unclear term is construed in favor of the insured. This doctrine reflects the unequal bargaining position of the parties.

16. A "binder" in property and casualty insurance provides:

- A (correct). Temporary coverage until a formal policy is issued or declined**
- B. A written guarantee of insurability for future policies
- C. A discount applied when a policy is renewed without claims
- D. A provision allowing the insured to cancel without penalty

Rationale: A binder is a temporary insurance contract that provides immediate coverage until a formal policy is issued or the application is declined. It is a legally binding agreement, oral or written, that creates full coverage. Binders typically expire in 30–90 days or when the policy is issued.

17. Which of the following is the BEST description of "employers liability" coverage under a Workers' Compensation policy?

- A. Coverage for employees injured on the job regardless of fault
- B. Coverage for the employer's legal defense in criminal proceedings
- C (correct). Coverage for employer liability for work injuries outside the workers' comp statute**
- D. Coverage for wage replacement during temporary disability

Rationale: Workers' compensation policies have two parts. Part One (Workers' Compensation) pays statutory benefits to injured workers regardless of fault. Part Two (Employers' Liability) covers the employer's liability for work injuries that fall outside the workers' comp statute — such as third-party-over actions or suits by spouses.

18. Under a commercial property policy, which of the following would be considered "electronic data" and typically subject to a coverage limit rather than full BPP coverage?

- A. Inventory held for sale
- B. Outdoor signs and fences
- C. Furniture and filing cabinets
- D (correct). Proprietary software and stored business data**

Rationale: Electronic data — stored data, programs, and software — is specifically defined and limited under ISO commercial property forms. The standard BPP form provides only \$2,500 for electronic data restoration costs. Higher limits require a data compromise or cyber endorsement.

19. Under California workers' compensation law, an injured employee who is temporarily unable to return to work receives temporary disability (TD) benefits equal to approximately:

- A. 100% of the worker's pre-injury wage
- B (correct). Approximately two-thirds (66!T%) of the worker's average weekly wage**
- C. 50% of the worker's average weekly wage
- D. A flat weekly benefit set by the insurer regardless of prior wages

Rationale: California Labor Code provides temporary disability benefits of approximately two-thirds (66!T%) of the worker's average weekly wage, subject to minimum and maximum weekly limits set by the Department of Industrial Relations. TD benefits replace lost wages during recovery.

Code: Cal. Ins. Code § 11590

20. Cyber liability insurance primarily covers losses arising from:

- A (correct). Data breaches, ransomware, and resulting third-party liability for compromised data**
- B. Professional errors by IT contractors
- C. Physical damage to computer hardware and servers
- D. General liability for slip-and-fall accidents in a tech office

Rationale: Cyber liability insurance covers first-party losses (data breach response costs, business interruption, ransomware payments) and third-party liability (claims by customers whose data was compromised). It is not covered under standard CGL policies, which have electronic data exclusions.

21. Under the CGL, the "expected or intended" exclusion eliminates coverage for:

- A (correct). BI or PD that the insured deliberately caused or expected to cause**
- B. Losses caused by negligence that could have been anticipated
- C. Product liability claims that the insured anticipated before selling the product
- D. Losses caused by a third party acting intentionally

Rationale: The expected or intended exclusion bars coverage for BI or PD that the insured expected or intended from the standpoint of the insured. It prevents coverage for deliberate harmful acts. Note: bodily injury that is a reasonably foreseeable consequence of intentional conduct may also be excluded even if the specific injury wasn't intended.

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

- A (correct). Medical and funeral expenses for the insured and passengers, regardless of fault**
- B. The other driver's repair costs when the insured is at fault
- C. Long-term disability income if the insured cannot return to work
- D. Liability damages owed to third parties injured in the accident

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.

23. A "claims-made" liability policy differs from an "occurrence" policy in that it pays claims:

- A. When the insured first discovers the potential for a claim
- B. When the lawsuit is settled or adjudicated during the policy period
- C. When the injury or damage occurs, regardless of when the claim is filed
- D (correct). When the claim is first made against the insured during the policy period**

Rationale: A claims-made policy is triggered when the claim is first made (reported) to the insurer during the policy period, regardless of when the injury or damage occurred. This is common for professional liability and D&O policies. "Tail" coverage (extended reporting period) can be purchased after a claims-made policy expires.

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

- A. Property permanently attached to a building
- B (correct). High-value movable property not adequately covered under a standard policy**
- C. Real property located in a flood zone
- D. Liability arising from transporting goods

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.

25. Under a standard homeowners policy, personal property of a resident college student living in a dormitory is typically covered at:

- A. 50% of Coverage C at any secondary location
- B (correct). 10% of Coverage C or \$1,000, whichever is greater**
- C. No coverage — the student must buy their own renters policy
- D. Full Coverage C limit anywhere in the world

Rationale: Most HO-3 policies extend Coverage C (personal property) worldwide, but personal property

at a secondary residence (like a dorm) is limited to 10% of the Coverage C limit or \$1,000, whichever is greater. This sub-limit encourages students to obtain renters insurance.

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

- A. The cost to repair or replace the physically damaged building or equipment
- B (correct). The net income and continuing operating expenses lost during a covered suspension of**

business

- C. The cost of relocating the business to a temporary location
- D. Extra expenses to continue operating above normal costs

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.

27. A commercial umbrella policy is PRIMARILY designed to:

- A (correct). Provide excess liability coverage above underlying policy limits**
- B. Eliminate deductibles on the insured's primary policies
- C. Replace underlying liability policies with a single broader policy
- D. Cover all excluded claims under the CGL policy

Rationale: A commercial umbrella policy provides excess liability coverage above the limits of underlying policies (CGL, auto, employers liability). It also typically drops down to cover gaps where an underlying policy excludes a claim. Umbrellas do not eliminate deductibles on underlying policies.

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

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

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.

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

- A. Any notice provided after the policy expiration date is automatically late
- B. The insured failed to report the claim in writing rather than orally
- C. The insured filed the claim more than 30 days after the loss
- D (correct). The insured's late notice actually prejudiced the insurer's ability to investigate or defend**

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.  
Code: Cal. Ins. Code § 554

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

- A. Payment of all claims from a dedicated escrow account
- B. No deductibles on any underlying policy
- 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.

31. Which of the following describes "adverse selection" in the insurance context?

- A. An insurer intentionally selecting only profitable risks
- B. Insurers charging lower premiums to attract high-risk customers
- C. An insured switching insurers every year to get the lowest rate
- D (correct). High-risk individuals being more likely to purchase insurance than low-risk individuals**

Rationale: Adverse selection occurs when individuals with higher-than-average risk are more likely to purchase insurance than low-risk individuals, leading to a disproportionately risky pool. Insurers counter adverse selection through underwriting, risk classification, and waiting periods.

32. 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.

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

- A. Age, gender, and marital status
- B (correct). Driving safety record, annual miles driven, and years of driving experience**
- C. Vehicle type, garaging location, and annual miles driven
- D. Credit score, homeownership, and commute distance

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.

Code: Cal. Ins. Code § 1861.02

34. Under California law, which of the following statements about workers' compensation is CORRECT?

**A (correct). Workers' compensation is the exclusive remedy — injured workers generally cannot sue**

- their employer in tort
- B. Employers in California are not required to carry WC insurance if they have fewer than 10 employees
- C. Injured workers may sue their employer for negligence in addition to receiving WC benefits
- D. An injured worker's WC benefits are offset by any personal injury settlement

Rationale: California Labor Code § 3602 establishes workers' compensation as the exclusive remedy — injured workers cannot sue their employer for negligence if the employer has WC coverage (with narrow exceptions for willful physical assault or power press injuries). This trade-off gives workers guaranteed benefits in exchange for surrendering tort rights.

Code: Cal. Ins. Code § 11590

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

- A. 45 calendar days
- B (correct). 15 calendar days**
- C. 10 calendar days
- D. 30 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.

Code: Cal. Ins. Code § 790.03

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

- A (correct). Income-eligible drivers with a clean record who are continuously licensed**
- B. Commercial vehicle operators who cannot afford standard rates
- C. All uninsured motorists in California regardless of income
- D. High-risk drivers with multiple DUI convictions

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.

Code: Cal. Ins. Code § 11629.7

37. An "occurrence" under a general liability policy is BEST defined as:

- A. A loss that occurs in a single, identifiable moment in time only
- B. A deliberate act by the insured that causes damage
- C. Any event that results in a lawsuit being filed
- D (correct). An accident, including continuous exposure to substantially the same harmful conditions**

Rationale: An occurrence is an accident, including continuous or repeated exposure to substantially the same general harmful conditions. Occurrence-based policies cover claims arising from events that occur during the policy period, even if the claim is filed years later — contrasted with claims-made policies.

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

- A. Is covered under Coverage C (medical payments) only
- B (correct). Triggers the livery/commercial use exclusion and is not covered under the standard PAP**
- C. Is covered only if the insured has collision coverage
- D. Is fully covered under the standard PAP as a personal use activity

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.

39. 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 insured negligently causes damage to a neighbor's property
- C. An at-fault driver damages the insured's vehicle
- D. A third-party contractor causes a covered loss to the insured's property

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).

40. Under a CGL policy, which of the following is an example of "personal and advertising injury" (Coverage B)?

- A. A customer slipping on a wet floor in the insured's store
- B. An employee being injured by faulty machinery
- C (correct). The insured publishing a false statement that harms a competitor's reputation**
- D. The insured's product causing a fire at a customer's warehouse

Rationale: Coverage B covers offenses such as false arrest, malicious prosecution, wrongful eviction, defamation (libel/slander), copyright infringement, and invasion of privacy. Bodily injury from a slip-and-fall is Coverage A; property damage is also Coverage A. Coverage B is specifically for enumerated offenses.

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

- A. Insurers were required to offer replacement cost coverage for all earthquake losses
- B (correct). Courts held that if a covered peril contributed to a loss alongside an excluded peril, the entire loss might be covered**
- C. The California legislature mandated earthquake coverage in all HO policies after Northridge
- D. Courts required insurers to cover losses that were entirely caused by excluded earthquake damage

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.

Code: Cal. Ins. Code § 530

42. The California FAIR Plan provides:

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

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.

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

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

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.

44. A DP-1 (Basic Form) dwelling policy covers which of the following on a named-perils basis?

- A. All perils without exclusions
- B. Fire, lightning, windstorm, hail, and theft
- C (correct). Fire, lightning, and internal explosion**
- D. All perils except flood and earthquake

Rationale: The DP-1 Basic Form is the most restrictive dwelling form, covering only fire, lightning, and internal explosion as named perils. Extended coverage (windstorm, hail, riot, aircraft, vehicles, smoke, volcanic eruption) can be added by endorsement.

45. An insured under a CGL policy has a duty to cooperate with the insurer during a claim investigation. Failure to cooperate may result in:

- A. The insured is subject to a state fine for non-cooperation
- B (correct). The insurer may deny coverage for that claim or void the policy**
- C. Coverage automatically transfers to the insurer's selected defense counsel
- D. The insurer must pay the claim regardless

Rationale: The duty to cooperate is a policy condition. If the insured fails to cooperate — e.g., refusing to provide documents, give testimony, or assist with the defense — the insurer may deny coverage or void the policy as to that claim. This is a material breach of a policy condition.

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

- A (correct). Mutual insurer**
- B. Lloyd's association
- C. Reciprocal exchange
- D. Stock insurer

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.

47. Which of the following correctly describes the "separation of insureds" clause in a CGL policy?

- A. Policy limits are multiplied by the number of insureds
- B. Each insured must maintain their own separate deductible
- C. Coverage is shared equally among all named insureds
- D (correct). Each insured is treated separately, so one insured's wrongdoing does not void another's coverage**

Rationale: The separation of insureds clause (also called severability of interests) means the policy applies separately to each insured as if each were the only insured. This prevents one insured's actions from voiding coverage for another co-insured, though it does not increase the policy limits.

48. The "fellow employee" exclusion in a workers' compensation policy is designed to:

- A. Cover the co-worker's personal liability for workplace accidents
- B (correct). Bar injured workers from suing their employer or co-workers for negligence when WC coverage applies**
- C. Reduce the employer's WC premium when no co-worker suits are filed
- D. Require fellow employees to carry their own liability insurance

Rationale: The fellow employee exclusion in the employers liability section (Part Two) prevents an injured worker's co-workers from being held liable and triggering the WC policy. Workers' comp is the exclusive remedy — an injured worker typically cannot sue their employer OR fellow employees for negligence.

49. An employee suffers a repetitive stress injury (carpal tunnel) from years of keyboard use at work. This would MOST likely be covered under:

- A. The employee's health insurance
- B. The employer's general liability policy
- C (correct). Workers' compensation insurance**
- D. A disability income policy

Rationale: Workers' compensation covers all occupational injuries and diseases, including repetitive stress injuries like carpal tunnel, regardless of fault. It does not matter that the injury developed over time rather than from a single accident.

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

Code: Cal. Ins. Code § 678

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

- A. The building structure itself
- B. Tenant improvements
- C. Outdoor signs attached to the building

**D (correct). Land**

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.

52. 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. Mediation through the CDI
- B (correct). Binding arbitration as an alternative to litigation**
- C. A formal jury trial only
- D. Filing a complaint with the NAIC

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.

Code: Cal. Ins. Code § 11580.2

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

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

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).

Code: Cal. Ins. Code § 1765.1

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

55. An insured whose home is destroyed by fire collects the full replacement cost from their insurer. The insurer then pursues the negligent contractor whose faulty wiring caused the fire. This is an example of:

- A. Contribution
- B. Arbitration
- C (correct). Subrogation**
- D. Salvage

Rationale: Subrogation is the insurer's right to "step into the shoes" of the insured and recover losses from a negligent third party after paying a claim. It prevents the insured from collecting twice and places ultimate liability on the responsible party.

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

- A. Accidental acts of the insured
- B (correct). The willful act of the insured**
- C. Acts of negligence by a third party
- D. Natural disasters that the insured could have prevented

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.

Code: Cal. Ins. Code § 533

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

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

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.

Code: Cal. Ins. Code § 11580.2

58. Under the ISO CGL policy, "Coverage C — Medical Payments" differs from "Coverage A" primarily because:

- A (correct). Coverage C pays without requiring proof of negligence; Coverage A requires legal liability**
- B. Coverage A excludes bodily injury on the insured's premises
- C. Coverage A requires a deductible; Coverage C does not
- D. Coverage C has higher limits than Coverage A

Rationale: CGL Medical Payments (Coverage C) is a no-fault coverage — it pays reasonable medical expenses for third parties injured on or near the insured's premises without requiring proof of negligence. Coverage A (BI/PD) requires the insured to be legally liable. Medical payments is a goodwill gesture with low limits (typically \$5,000–\$10,000).

59. Which of the following triggers the "products liability" exposure under a CGL policy?

- A. Damage to a customer's property while repairs are performed on their premises
- B (correct). A consumer injured by a defective product after it left the manufacturer's possession**
- C. An employee injured while assembling a product on the production line
- D. A customer slipping on the floor of the insured's store

Rationale: Products liability under the CGL covers BI/PD claims arising from the insured's products after they have left the insured's possession. If a consumer is injured by a defective product the insured manufactured or sold, the products-completed operations coverage (Coverage A) responds.

60. Under the PAP, which of the following individuals would be considered an "insured" under Part A (Liability)?

- A. A commercial delivery driver using the car for business
- B. An unlicensed household member
- C (correct). A friend borrowing the car with the owner's permission**
- D. A mechanic test-driving the car without explicit owner permission

Rationale: The PAP defines "insured" broadly for liability: the named insured and resident relatives, and any person using the covered auto with permission. A permissive user (friend borrowing the car) is an insured under Part A. However, they must have the owner's permission — not simply the spouse's permission if the owner is also available.

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

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

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

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

- A. The insured's own vehicle is damaged by an unidentified driver
- 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 insurance at all
- D. The insured is at fault and injures an uninsured 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.  
Code: Cal. Ins. Code § 11580.2

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

- A (correct). Requiring prior approval of rate increases and mandating a good driver discount**
- B. Deregulating auto insurance rates and eliminating government oversight
- C. Creating a state-run auto insurance monopoly
- D. Mandating coverage for all California drivers at no cost

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.  
Code: Cal. Ins. Code § 1861.01

64. Employment practices liability insurance (EPLI) covers claims alleging:

- A. Bodily injuries to workers injured on the job site
- B (correct). Discrimination, sexual harassment, or wrongful termination claims by employees**
- C. OSHA fines and regulatory penalties
- D. Property damage caused by the employer's equipment

Rationale: EPLI covers employer liability for employment-related wrongful acts such as discrimination, sexual harassment, wrongful termination, and failure to promote. It is not covered under the standard CGL (which has an employment-related practices exclusion) and is not workers' compensation.

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

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

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.

66. 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. \$160,000
- B. \$125,000
- C. \$200,000
- D (correct). \$156,250**

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.

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

- A. Apply to the federal government for interstate rate approval
- B (correct). Obtain prior approval from the California Insurance Commissioner before the increase takes effect**
- C. File rates with the CDI and use them immediately without waiting for approval
- D. Simply notify policyholders 30 days before the rate takes effect

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.  
Code: Cal. Ins. Code § 1861.01

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

- A. Caused by a covered peril on the insured premises
- B. Caused by a guest falling on the insured's driveway
- C (correct). Arising from the insured's business pursuits or professional services**
- D. Arising from the insured's personal recreational activities

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.

69. 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. Mandatory community service with no criminal record
- C (correct). Felony criminal penalties and civil penalties including treble damages**
- D. Only a written warning for a first offense

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.  
Code: Cal. Ins. Code § 1871

70. The "excess and surplus lines" (E&S) market is PRIMARILY used for:

- A (correct). Unusual, high-hazard, or hard-to-place risks that admitted carriers decline**
- B. Small personal lines policies not profitable enough for standard markets
- C. Risks that are covered by the state guarantee fund
- D. Standard commercial risks that all admitted carriers want to write

Rationale: The E&S (non-admitted) market provides coverage for risks that admitted carriers decline — unusual, high-hazard, or hard-to-place risks. E&S insurers are not licensed in the state (non-admitted) and are not subject to rate/form filing requirements, allowing more flexibility. State guarantee funds do NOT cover E&S insurers.

71. Professional liability (errors and omissions) insurance covers claims arising from:

- A. Criminal acts committed by the professional in the course of business
- B (correct). Financial losses caused by professional mistakes, negligence, or failure to perform duties**
- C. Property damage caused by faulty professional work
- D. Bodily injury caused by the professional's negligent acts

Rationale: E&O insurance covers claims for financial harm resulting from professional mistakes, negligent acts, or failure to perform professional duties. It does NOT cover intentional fraud, bodily injury, or property damage (those fall under CGL). It is essential for professionals like accountants, agents, and consultants.

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

- A (correct). The loss must be intentionally caused by a third party**
- B. The loss must be measurable in financial terms
- C. There must be a large number of similar exposure units
- D. The loss must be accidental from the insured's standpoint

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.

73. Which of the following statements about the National Flood Insurance Program (NFIP) is CORRECT?

- A (correct). NFIP provides coverage through a federal program with a standard 30-day waiting period**
- B. NFIP policies are available to all property owners, even in non-participating communities
- C. Maximum building coverage under NFIP is \$500,000 for residential properties
- D. Coverage typically takes effect immediately with no waiting period

Rationale: The NFIP, administered by FEMA, is the primary source of flood insurance in the US. It is available to property owners in participating communities. Standard NFIP policies have a 30-day waiting period before coverage takes effect (with limited exceptions for loan closings). Maximum coverage is \$250,000 for residential buildings and \$100,000 for contents.

74. A business is sued because one of its employees caused an auto accident while making a delivery. Which policy would PRIMARILY respond to the bodily injury claim?

- A (correct). The employer's commercial auto policy**
- B. The employer's commercial general liability policy
- C. The employee's personal auto policy
- D. The owner's homeowners policy

Rationale: The employer's commercial auto policy covers liability for autos used in the business, including employee use during the course of employment. The CGL has an "auto exclusion" that bars coverage for BI/PD arising from owned, hired, or non-owned autos. A commercial umbrella follows the auto policy as excess.

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

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

Code: Cal. Ins. Code § 10087

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

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

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.

77. A commercial property policy is written on a "replacement cost" basis rather than "actual cash value." What is the primary difference?

- A. RC pays ACV plus a 10% bonus for new materials
- B. RC and ACV are identical terms
- C. RC pays the market value of the property on the date of loss
- D (correct). RC pays the cost to repair or replace with new materials without deducting for depreciation**

Rationale: Replacement cost (RC) policies pay the cost to replace or repair damaged property with new materials of like kind and quality, without deducting for depreciation. ACV = RC minus depreciation. RC policies are more favorable to the insured but carry higher premiums.

78. 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. Business owners who use their personal car for deliveries
- C (correct). Persons who drive but do not own a vehicle**
- 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.

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

- A. Only fire and lightning perils
- B. Only specific named perils listed in the policy
- C (correct). All causes of loss except those specifically excluded**
- D. All causes of loss with no exclusions

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).

80. A "per occurrence" deductible on a general liability policy means the deductible applies:

- A (correct). Once for the entire occurrence regardless of how many claimants arise**
- B. Once per policy year regardless of the number of occurrences
- C. Separately for each policy period in which claims from the occurrence are filed

D. Once per each individual claimant injured in the occurrence

Rationale: A per-occurrence deductible applies once per covered occurrence — the insured pays the deductible once no matter how many claimants arise from that single event. A per-claim deductible applies separately to each claimant, which can be more costly when a single event injures multiple people.

**81. Under a homeowners policy, Coverage E (Personal Liability) would typically cover which of the following claims?**

- A. An intentional assault by the insured on a neighbor
- B. A workplace injury suffered by the insured's employee
- C (correct). A neighbor slipping on the insured's icy front walkway**
- D. An auto accident in the insured's driveway

Rationale: Coverage E pays for bodily injury or property damage for which the insured is legally liable due to non-auto, non-business activities. A neighbor slipping on an icy walk is a classic covered occurrence. Auto accidents are excluded (auto policy), intentional acts are excluded, and business activities are excluded.

**82. The "occurrence" trigger under a CGL policy means that coverage applies when:**

- A. The claim is first reported to the insurer during the policy period
- B (correct). The injury occurs during the policy period, regardless of when the claim is filed**
- C. The injury is caused by a named insured only
- D. The lawsuit is filed and resolved during the policy period

Rationale: An occurrence-based CGL policy is triggered when the bodily injury or property damage occurs during the policy period, regardless of when the claim is filed. This is favorable to insureds because coverage applies to "long-tail" claims like environmental damage discovered years after the policy expires.

**83. A "moral hazard" in insurance refers to:**

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

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).

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

- A (correct). Both parties must fully and honestly disclose all material facts**
- 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.

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

- A. Duties, Insurance Limit, Coverage, Endorsements
- B. Definitions, Indemnity Clause, Coverage, Endorsements
- C. Declarations, Indemnification, Claims, Exclusions
- D (correct). Declarations, Insuring Agreement, Conditions, Exclusions**

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.

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

- A. Fencing and landscaping up to \$10,000
- B. A permanently installed outdoor sign
- C. The building's exterior walls and foundation
- D (correct). Trees, shrubs, and plants at a \$2,500 sublimit for specific named perils only**

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.

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

- A. The declarations page identifying the insured and premium amount
- B (correct). The insurer's promise to pay and the scope of what is covered**
- C. A list of property excluded from coverage under the policy
- D. The duties the insured must perform after a loss

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.

**88.** An insurer that is incorporated in Arizona but licensed to do business in California is considered a \_\_\_\_\_ insurer in California.

- A. Alien
- B. Domestic
- C. Surplus lines
- D (correct). Foreign**

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.

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

- A (correct). \$2,700**
- B. \$3,200
- C. \$500
- D. \$3,700

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.

**90.** A "builders risk" policy provides coverage for:

- A. A building contractor's tools and equipment on a job site
- B. A completed commercial building against fire for the first year of occupancy
- C. Renovation work on an existing occupied dwelling
- D (correct). A structure during the course of construction**

Rationale: Builders risk insurance covers a building or structure during the course of construction. Coverage typically attaches when construction begins and terminates when the building is complete and occupied. It covers the structure, materials on-site, and sometimes materials in transit.

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

- A. The insurer pays the full replacement cost regardless of age
- B. The insured receives a fixed benefit amount regardless of actual loss
- C (correct). The insured is restored to the same financial position as before the loss, no better, no worse**
- D. The insurer profits from every policy that does not result in a claim

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.

92. Under the CGL, the "personal and advertising injury" Coverage B excludes claims arising from:

- A. Libel and slander claims against the insured
- B. Wrongful eviction claims by the insured's tenants
- C (correct). Claims arising from the insured's knowing violation of rights or criminal acts**
- D. Copyright infringement in the insured's advertising

Rationale: Coverage B (Personal and Advertising Injury) excludes claims that arise from criminal acts by the insured, knowing violation of rights, breach of contract (other than implied contract in infringement claims), and — critically — failure of goods or services to conform to quality representations (advertising injury claims related to product quality are excluded).

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

- A. Rental car costs while the vehicle is being towed
- B. The cost to repair mechanical breakdown at a service center
- C (correct). Towing to the nearest repair facility and labor at the disablement site**
- D. Any roadside expense including fuel delivery and locksmith services

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.

94. 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.

95. Under the ISO CGL policy, the "damage to property" exclusion (formerly "care, custody or control") generally eliminates coverage for:

- A. Liability for damage to property caused by the insured's completed products
- B (correct). Property damage to property of others in the insured's care, custody, or control**
- C. Damage to the insured's own property caused by a covered peril
- D. Physical damage to the insured's business vehicles

Rationale: The CGL care, custody or control exclusion bars coverage for property damage to property in the insured's care, custody, or control. For example, if a repair shop damages a customer's car, the CGL won't cover it — the shop needs a "Garagekeepers" policy for that exposure.

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

- A (correct). A small retail store or professional office**
- B. A hospital with significant medical malpractice exposure
- C. A large manufacturing plant with complex machinery
- D. An auto dealership with a large vehicle inventory

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.

**97.** 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. Completing a state-approved defensive driving course
- B (correct). Purchasing auto liability insurance meeting minimum required limits**
- C. Registering the vehicle in another state with lower requirements
- D. Filing a financial hardship waiver with the DMV

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.

Code: Cal. Ins. Code § 11580.1b

**98.** The ISO Homeowners HO-8 form is specifically designed for:

- A. New luxury homes in high-cost coastal markets
- B (correct). Older homes where replacement cost significantly exceeds market value**
- C. Mobile homes and manufactured housing
- D. Rental properties owned by absentee landlords

Rationale: The HO-8 Modified Coverage Form is designed for older homes where the replacement cost significantly exceeds the market value — common in historic districts. Instead of replacement cost, it pays on an ACV or functional replacement cost basis to prevent over-insurance and moral hazard.

**99.** An insurance policy provision stating that the insurer will not pay more than the actual cash value (ACV) of a covered loss is an application of which insurance principle?

- A. Subrogation
- B. Insurable interest
- C (correct). Indemnity**
- D. Contribution

Rationale: The principle of indemnity underlies ACV settlement — restoring the insured to their pre-loss financial position without allowing a gain. ACV = replacement cost minus depreciation. Replacement cost policies make a specific exception to the pure indemnity principle by paying to replace without depreciation.

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

Code: Cal. Ins. Code § 1861.03

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

- A (correct). The additional living costs above normal when a home is uninhabitable after a covered loss**
- B. The insured's mortgage or rent payments during repair
- C. The full cost of temporary housing regardless of normal living expenses
- D. Repair costs for a second residence while the primary home is repaired

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.

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

- A **(correct). Additional costs required to bring a repaired building up to current building codes**
- B. The cost to demolish and rebuild a structurally sound but undamaged portion of the building
- C. The insured's legal costs to dispute a building permit denial
- D. Replacement of ordinance-compliant materials that were damaged

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.

103. The HO-4 homeowners policy form is designed for:

- A. Owners of mobile homes
- B **(correct). Renters who do not own the dwelling**
- C. Condo unit owners
- D. Owners of older historic homes

Rationale: The HO-4 (Contents Broad Form) is the renters insurance form. It covers the tenant's personal property and provides liability coverage, but does NOT cover the building structure (which the landlord insures). It is named-perils coverage.

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

- A. It is owned collectively by all policyholders in a pool
- B **(correct). It cannot be transferred to another party without the insurer's consent**
- 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

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.

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

- A. Vandalism
- B. Windstorm and hail
- C **(correct). Theft**
- D. Fire

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.

106. An insured has two property policies covering the same dwelling — Policy A with a \$200,000 limit and Policy B with a \$100,000 limit. A \$60,000 covered loss occurs. Under the pro-rata "other insurance" clause, how much does Policy A pay?

- A. \$60,000
- B **(correct). \$40,000**
- C. \$30,000
- D. \$20,000

Rationale: Under pro-rata contribution, each insurer pays its proportionate share of the loss. Policy A's share =  $\$200,000 / \$300,000 \text{ total} = 2/3$ . Policy B pays  $1/3$ . So Policy A pays  $2/3 \times \$60,000 = \$40,000$ . This prevents double recovery under the indemnity principle.

107. A "pair and set" clause in a property policy addresses situations where:

- A. Matching items are excluded from coverage entirely
- B. The insurer pays full value for the lost item and the insured keeps the remaining set
- C (correct). Partial damage reduces the value of the whole set and the insurer pays only the value difference**
- D. The insurer replaces the entire set when one item is damaged

Rationale: The pair and set clause limits the insurer's liability when one item of a matched pair or set is lost or destroyed. The insurer does not owe the full value of the set — only the difference between the value of the set before and after the loss, preventing windfalls when one earring of a valuable pair is lost.

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

- A. Inventory held for sale
- B. Tenant improvements and betterments
- C (correct). Land on which the building sits**
- D. Furniture and equipment owned by the business

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.

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

- A. Fire
- B. Theft
- C. Windstorm
- D (correct). Flood**

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.

110. 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 (correct). Insurable interest**
- B. Adhesion
- C. Proximate cause
- D. Subrogation rights

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

111. A waiver in an insurance contract refers to:

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

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.

112. In California, workers' compensation insurance is:

- A. Required only for employers with annual payroll over \$500,000
- B. Only required for businesses in high-hazard industries
- C. Optional for employers with fewer than 5 employees
- D (correct). Mandatory for virtually all California employers with at least one employee**

Rationale: California Labor Code § 3700 requires virtually all employers with at least one employee to carry workers' compensation insurance. It is a no-fault system — employees receive statutory benefits regardless of who caused the accident, and employers are generally shielded from tort lawsuits.

Code: Cal. Ins. Code § 11590

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

- A. A head-on collision with another vehicle
- B (correct). The insured's car striking a deer**
- C. Rear-ending a parked car
- D. The insured's car flipping over on a highway

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.

**114.** An "additional insured" endorsement on a CGL policy extends coverage to:

- A. Unnamed members of the general public who are injured
- B (correct). A third party (e.g., property owner or general contractor) for liability arising from the named insured's operations**
- C. All subcontractors hired by the named insured
- D. The insured's own employees when injured on the job

Rationale: An additional insured endorsement adds another party — typically a property owner, general contractor, or lender — to the named insured's CGL policy. The additional insured receives coverage for their own liability arising from the named insured's operations, up to the policy limits. They do not receive all rights of a named insured.

**115.** The "pollution exclusion" in a CGL policy was designed to eliminate coverage for:

- A. Product liability for defective chemicals sold by the insured
- B. Intentional damage by the insured to a third party's property
- C (correct). Environmental and toxic tort claims arising from pollutant discharge**
- D. Claims by employees for exposure to asbestos on the job

Rationale: The absolute pollution exclusion bars coverage for BI/PD arising from the discharge, dispersal, or release of pollutants. Courts have applied it broadly to exclude many toxic tort and environmental claims. Some states have challenged its scope, and "sudden and accidental" pollution endorsements can restore limited coverage.

**116.** The "extended reporting period" (ERP or "tail") endorsement on a claims-made policy:

- A. Reduces the premium owed when the insured retires
- B. Converts the claims-made policy to an occurrence-based policy
- C. Extends the policy period for new occurrences after the policy expires
- D (correct). Allows claims to be reported after the policy expires for incidents during the policy period**

Rationale: The ERP (tail) allows the insured to report claims after a claims-made policy expires or is cancelled, for occurrences that happened during the original policy period. Without a tail, claims reported after the policy ends have no coverage. Tails are critical when switching insurers or retiring.

**117.** A "garage liability" policy is MOST appropriate for which type of business?

- A. A contractor who uses rented trucks for material delivery
- B. A restaurant with a catering van
- C (correct). An auto dealer, repair shop, or parking garage**
- D. A software company with a company-owned vehicle fleet

Rationale: Garage liability policies are designed for auto dealers, auto repair shops, and parking garages — businesses with auto-specific liability exposures. They combine premises/operations liability (for non-auto claims) with auto liability for owned,

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non-owned, and customer vehicles in the insured's care.

**118.** An insured has a CGL policy with a \$1,000,000 per-occurrence limit and a \$2,000,000 general aggregate. After paying \$1,800,000 in claims during the policy year, what is the remaining aggregate?

- A. \$2,000,000
- B. \$1,000,000
- C. \$0 — the aggregate is fully exhausted
- D (correct). \$200,000**

Rationale: The general aggregate is the maximum the insurer will pay for all covered losses during the policy period (typically one year). After \$1,800,000 in payments, only \$200,000 remains in the aggregate. Per-occurrence claims are still capped at \$1,000,000 each.

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

- A. Each location or property item is assigned its own separate limit
- B. Coverage is restricted to the named insured's primary location only
- C (correct). A single limit applies across multiple locations or property categories**
- D. Premiums are lower because fewer locations are covered

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.

**120.** Which of the following statements about the law of large numbers and insurance is CORRECT?

- A. Insurers can eliminate all uncertainty by insuring enough exposures
- B. A smaller pool leads to more accurate loss predictions
- C (correct). As the number of exposure units grows, actual results more closely match predicted results**
- D. The law only applies to life insurance, not property and casualty

Rationale: The law of large numbers states that as the number of similar, independent exposure units increases, the actual loss experience will more closely approximate the predicted (expected) loss experience. This is the statistical foundation of insurance pricing — it allows insurers to accurately predict losses and set premiums.

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

- A. The actual cash value of the property at the time of loss
- B. The replacement cost minus depreciation
- C. The lesser of ACV or the cost to rebuild
- D (correct). A pre-agreed fixed amount regardless of ACV at the time of loss**

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.

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

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

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.

123. 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. 7 days
- B. 30 days
- C (correct). 14 days**
- D. 60 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.

124. Which of the following BEST describes a "peril" in property insurance terminology?

- A. The financial amount the insured must pay before insurance responds
- B. The maximum amount an insurer will pay under a policy
- C (correct). The cause of a loss, such as fire, theft, or windstorm**
- D. A condition that increases the probability or severity of a loss

Rationale: A peril is the cause of loss — fire, windstorm, theft, flood. A hazard is a condition that increases the likelihood or severity of a loss (e.g., dry grass near a structure is a physical hazard). Distinguishing peril from hazard is a foundational concept on the P&C exam.

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

- A (correct). The insured's ZIP code or territory of residence**
- B. The insured's driving safety record
- C. The insured's years of driving experience
- D. The insured's annual miles driven

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.

Code: Cal. Ins. Code § 1861.02

126. An "endorsement" to an insurance policy is BEST described as:

- A. A separate insurance policy sold alongside the primary policy
- B. A renewal offer issued at the end of the policy period
- C (correct). A written modification that changes the terms of the original policy**
- D. A certificate proving insurance coverage exists

Rationale: An endorsement (also called a rider) is a written modification that changes the terms of the original policy. It can expand or restrict coverage, add or remove insureds, or change limits. Endorsements take precedence over conflicting policy language and are part of the policy contract.

127. Under the ISO Commercial General Liability (CGL) policy, Coverage A covers:

- A (correct). Bodily injury and property damage liability**
- B. Medical payments to the insured
- C. Personal and advertising injury
- D. Professional errors and omissions

Rationale: CGL Coverage A pays for bodily injury (BI) and property damage (PD) liability for which the insured is legally liable due to an "occurrence." Coverage B covers personal and advertising injury (e.g., libel, slander). Coverage C covers medical payments regardless of fault.

128. The co-insurance clause in a commercial property policy is designed to encourage insureds to:

- A (correct). Insure their property to at least a specified percentage of its full value**
- B. File claims frequently to maximize their policy value
- C. Pay premiums annually rather than monthly

D. Name the insurer as an additional insured on all policies

Rationale: The coinsurance clause penalizes insureds who under-insure their property. If the insured carries less than the required percentage (typically 80%) of the property's value, they become a "co-insurer" for the deficiency and must absorb a proportionate share of any partial loss.

**129.** 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. Insureds whose spouse has their own separate auto policy
- C. Insureds who want coverage extended to unlicensed household members

**D (correct).** Corporate officers or employees provided a company car who have no personal PAP of their own

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.

**130.** Directors and Officers (D&O) liability insurance primarily protects:

- A. Employees who are injured in the workplace
- B. The company's buildings and equipment against physical damage
- C. Customers who are harmed by the corporation's products

**D (correct).** The personal assets of corporate directors and officers against wrongful act claims

Rationale: D&O insurance protects the personal assets of corporate directors and officers against claims alleging wrongful acts (mismanagement, breach of fiduciary duty, misleading statements) in their capacity as corporate leaders. It is a management liability product, not a general liability product.

**131.** The "mortgagee clause" (also called mortgage holder clause) in a homeowners policy protects the lender by:

- A. Requiring the insured to pay the mortgage from any claim proceeds
- B. Reducing the insurer's liability by the outstanding mortgage balance
- C. Allowing the lender to cancel the policy at any time

**D (correct).** Giving the lender a direct claim payment and separate cancellation notice even if the policy is voided against the insured

Rationale: The mortgagee clause ensures the lender's interest is protected even if the insured's coverage is voided due to a policy condition (e.g., arson by the insured, failure to notify of changes). The lender receives its own claim payment and separate cancellation notice, protecting its collateral interest.

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

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

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.

Code: Cal. Ins. Code § 10081

**133.** A "scheduled personal property" endorsement on an HO policy is used to:

- A. Cover business property kept at the insured's home
- B. Replace Coverage C entirely with broader all-risk protection
- C (correct).** Provide higher limits and open-perils coverage for specifically listed high-value items

D. Add flood or earthquake coverage not available in standard forms

Rationale: Scheduling (itemizing) high-value items like jewelry, fine art, or cameras on an HO policy removes the standard sub-limits that apply to those categories under Coverage C. Each item is listed with its appraised value, and coverage is typically provided on an open-perils basis with no deductible.

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

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

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.

**135.** The "fire legal liability" coverage in a CGL policy specifically addresses:

- A. All property damage claims by third parties against the insured
- B. Fire damage to the insured's own equipment
- C (correct). A tenant's liability for fire damage to a rented building**
- D. Claims arising from the insured's products catching fire

Rationale: The CGL care, custody or control exclusion would normally bar coverage when a tenant causes a fire that damages the building they rent. Fire legal liability (typically \$100,000 in a standard CGL) reinstates coverage for this specific scenario, protecting tenants from claims by their landlord.

**136.** A "participating" insurance policy is one in which:

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

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.

**137.** Under a commercial umbrella policy, "retained limit" refers to:

- A. The minimum required premium for the umbrella policy
- B (correct). The out-of-pocket amount the insured pays before the umbrella drops down for uncovered claims**
- C. The combined limits of all underlying liability policies
- D. The insurer's maximum payout under the umbrella policy

Rationale: The retained limit (also called the self-insured retention or SIR) is the amount the insured must pay out-of-pocket for losses NOT covered by an underlying policy before the umbrella drops down. It functions like a deductible for claims the umbrella covers that the underlying policy does not.

**138.** The term "proximate cause" in insurance refers to:

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

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.

**139.** A "crime" coverage form under a commercial property policy would cover which of the following losses?

- A. Fire damage caused by an arsonist
- B (correct). Embezzlement of company funds by a trusted employee**
- C. Theft of inventory by a shoplifter
- D. Damage to the company's building caused by a break-in

Rationale: Commercial crime coverage covers employee dishonesty (employee theft), forgery or alteration of instruments, computer fraud, funds transfer fraud, and robbery. Standard property policies exclude theft by employees — a separate crime policy or endorsement is needed.

**140.** Liquor liability coverage under a CGL policy responds to claims arising from:

- A. Property damage caused by intoxicated patrons after leaving the premises
- B (correct). Claims against a business whose operations involve selling or serving alcohol**
- C. Professional mistakes made by the insured's bartenders
- D. Accidents involving the insured's delivery trucks

Rationale: The standard CGL has a liquor liability exclusion for insureds whose business involves manufacturing, distributing, selling, or serving alcoholic beverages. A separate liquor liability policy (or liquor liability endorsement) is needed. For businesses that only occasionally serve alcohol (like at a company party), the CGL may provide limited coverage.

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

- A. Any accidental damage regardless of cause
- B (correct). Contact with another vehicle, an object, or the vehicle overturning**
- C. Animal strikes and falling objects
- D. Fire, theft, or vandalism

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.

**142.** Under the ISO Homeowners program, which form provides the BROADEST coverage for both the dwelling AND personal property?

- A. HO-8
- B (correct). HO-5**
- C. HO-2
- D. HO-3

Rationale: The HO-5 (Comprehensive Form) covers both the dwelling and personal property on an open-perils basis — the broadest available. HO-3 covers the dwelling open-perils but personal property on named-perils. HO-2 covers both on named-perils. HO-8 is modified coverage for older homes.

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

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

144. The "loss of rents" coverage under a dwelling policy pays the insured for:

- A (correct). The rental income lost while the dwelling is uninhabitable after a covered loss
- B. The mortgage payment on the rental property during repairs
- C. The cost of finding a new tenant after a covered loss
- D. All rent the insured would have collected regardless of the loss

Rationale: Loss of rents coverage (also called fair rental value) compensates the insured landlord for rental income lost when a covered loss makes the dwelling uninhabitable. It pays only the additional rent lost above what the insured would normally receive, not the total rent roll.

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

- A. A newer building has appreciated significantly in value
- B. The insured wants to insure the building at its market value rather than replacement cost
- C (correct). Replicating the original features of an older building would cost far more than a modern functional equivalent
- D. The insured cannot afford full replacement cost insurance

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.

146. 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.  
Code: Cal. Ins. Code § 1861.025

147. The "debris removal" coverage in a commercial property policy pays for:

- A. The cost to remove pollutants from covered property
- B. The cost to demolish an undamaged portion of the building
- C (correct). The insured's cost to hire workers to remove damaged property after a covered loss
- D. Moving costs to relocate the business temporarily

Rationale: Debris removal coverage pays the cost to remove debris of covered property after a covered loss. Standard ISO forms provide debris removal coverage up to 25% of the loss payment plus the deductible. Additional limits may be purchased by endorsement. Pollutant removal is a separate coverage.

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

- A (correct). A restaurant or grocery store that relies on refrigeration for perishable inventory
- B. A construction company whose equipment sits outside
- C. A retail store with a large cash register
- D. A law firm that handles confidential client files

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.

149. Under a CGL policy, the "products-completed operations" hazard covers claims arising from:

- A. Professional advice or services provided by the insured
- B (correct). Products after they leave the insured's possession or completed work away from premises**
- C. Injuries occurring on the insured's business premises
- D. Employee injuries occurring during work hours

Rationale: Products-completed operations (PCO) coverage applies to BI/PD claims arising from the insured's products after they leave the insured's possession, or from completed work away from the insured's premises. It is a separate aggregate limit from premises/operations coverage.

150. Under a commercial property policy, "extra expense" coverage pays for:

- A. The net income lost when the business cannot operate after a covered loss
- 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. The cost to repair or replace physically damaged business property

Rationale: Extra expense coverage pays the additional costs (above normal operating expenses) that a business incurs to continue operations after a covered loss — e.g., renting a temporary location, expediting delivery of replacement equipment. It works alongside business income coverage and reduces the business income loss.