



Texas Property and Casualty Insurance

Solution key

April 6, 2026

Official exam page

californiacerts.com/exams/tx-property-casualty-insurance

Online timed practice

californiacerts.com/exams/tx-property-casualty-insurance/practice

If the link does not open, copy and paste the full URL into your browser.

1. A "backup of sewers and drains" endorsement covers:

- A (correct). Damage caused when sewers or drains reverse flow into the structure**
- B. Flood damage from rising surface water
- C. Overflow from a nearby body of water
- D. Water damage from burst pipes inside the building

Rationale: Standard property policies exclude water that backs up through sewers or drains. This endorsement adds that coverage back, protecting against damage caused when drains or sewers reverse flow into the structure.

2. What is the difference between a peril and a hazard?

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

Rationale: A peril is the cause of loss (fire, theft, windstorm). A hazard is a condition that increases the likelihood or severity of a loss. Confusing the two is one of the most common errors on the exam.

3. The HO-6 policy is designed for:

- A. Renters
- B. Owners of older homes
- C (correct). Condominium unit owners**
- D. Mobile home owners

Rationale: HO-6 covers condominium unit owners. It covers personal property, the interior of the unit (walls-in), and personal liability. The condo association's master policy covers the building structure.

4. A "binder" in insurance provides:

- A. A written policy endorsement modifying existing coverage
- B (correct). A temporary agreement providing immediate coverage until a formal policy is issued**
- C. A premium financing arrangement for new policies
- D. Permanent coverage that cannot be cancelled

Rationale: A binder is a temporary agreement providing immediate insurance coverage until a formal policy is issued or the application is declined. It is legally binding and subject to the same terms as the eventual policy.

5. Which of the following is TRUE about "directors and officers" (D&O) liability insurance?

- A. Replaces workers compensation for executive employees
- B (correct). Protects directors and officers against personal liability for wrongful acts in their managerial capacity**
- C. Provides coverage for the corporation's property damage
- D. Covers all corporate employees for any job-related liability

Rationale: D&O coverage protects corporate directors and officers against personal liability for wrongful acts in their managerial capacity — such as mismanagement, breach of fiduciary duty, and shareholder suits.

6. Which homeowners form is designed for renters?

- A. HO-6
- B (correct). HO-4**
- C. HO-8
- D. HO-2

Rationale: HO-4 (contents broad form) is designed for renters. It covers personal property and provides liability coverage but does not cover the building structure, which is the landlord's responsibility.

7. Which of the following is typically excluded from commercial property coverage?

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

Rationale: Earthquake damage is typically excluded from standard commercial property policies and must be added by endorsement. Fire, windstorm, and theft are commonly covered perils.

8. The vacancy clause in a commercial property policy typically suspends certain coverages after the building has been vacant for:

- A (correct). 60 days**
- B. 180 days
- C. 30 days
- D. 90 days

Rationale: Most commercial property forms suspend coverage for vandalism, sprinkler leakage, glass breakage, and theft after 60 consecutive days of vacancy, and reduce payment on other losses by 15%.

9. The "medical payments" coverage in a CGL policy:

- A (correct). Pays medical expenses of injured third parties regardless of fault as a goodwill coverage**
- B. Requires proof of the insured's negligence before paying
- C. Covers the insured's own medical expenses after an accident
- D. Pays only after the insured's health insurance is exhausted

Rationale: Medical payments coverage pays for medical expenses of third parties injured on the insured's premises or by the insured's operations, regardless of fault. It is a goodwill coverage with no admission of liability.

10. The "replacement cost" loss settlement method pays:

- A. The original purchase price of the damaged property
- B (correct). The cost to repair or replace with new materials of like kind and quality without deducting depreciation**
- C. The replacement cost minus applicable depreciation
- D. The fair market value at the time of loss

Rationale: Replacement cost pays the cost to repair or replace damaged property with new materials of like kind and quality, without deducting for depreciation. It typically requires the insured to actually repair or replace.

11. A "non-owned building" coverage endorsement is designed for:

- A. A lender whose mortgage interest is not covered
- B (correct). A tenant who has made improvements to leased space**
- C. A contractor who builds on property they do not own
- D. A building owner who leases property to others

Rationale: Non-owned building (or tenant improvements and betterments) coverage protects a tenant who has made improvements to leased space. Since the improvements become part of the building, the tenant has an insurable interest.

12. A commercial property policy's "debris removal" coverage pays for:

- A. The cost to rebuild the structure after a total loss
- B. Emergency expenses incurred immediately after a loss
- C. The cost of temporary repairs to protect property
- D (correct). The cost to remove debris of covered property following a covered loss**

Rationale: Debris removal coverage pays the cost to remove debris of covered property following a covered loss. It is typically limited to 25% of the loss amount plus the deductible, with an additional \$10,000 available.

13. Under a personal auto policy (PAP), "Part A — Liability" covers:

- A. Uninsured motorist losses
- B. Physical damage to the insured's own vehicle
- C. Medical expenses of the insured and passengers regardless of fault
- D (correct). Bodily injury and property damage the insured is legally obligated to pay from auto accidents**

Rationale: Part A covers bodily injury and property damage the insured is legally obligated to pay arising from auto accidents. It includes defense costs, which do not reduce the limit of liability.

14. An "occurrence" policy provides coverage for:

- A. Losses that are reported and paid within the same policy year
- B. Losses reported during the policy period regardless of when they occurred
- C. Losses caused by a single event only, not ongoing conditions
- D (correct). Losses that occur during the policy period regardless of when the claim is filed**

Rationale: An occurrence policy covers losses that occur during the policy period, regardless of when the claim is filed. This contrasts with a claims-made policy, which covers claims filed during the policy period.

15. The principle of utmost good faith requires:

- A (correct). Both parties must fully and honestly disclose all material facts**
- B. The insured must disclose facts only after a claim is filed
- C. The insured may withhold information that would raise their premium
- D. Only the insurer must disclose material facts

Rationale: Both parties to an insurance contract must fully and honestly disclose all material facts. Concealment of a material fact by the applicant can void the policy.

16. A "nonsubscribing" employer in Texas:

- A. Can limit employee injury awards to a fixed statutory amount
- B. Is exempt from all workplace injury lawsuits
- C (correct). Loses exclusive remedy protection and faces unlimited tort liability; cannot use negligence defenses**
- D. Must pay workers comp benefits through a state fund

Rationale: A nonsubscriber has opted out of the workers comp system and loses the exclusive remedy protection. Injured employees can sue the nonsubscriber in civil court and the employer cannot use negligence defenses such as contributory negligence or assumed risk.

17. A "professional liability" policy (E&O) covers:

- A. Bodily injury caused by professional tools or equipment
- B. All liability claims against licensed professionals
- C. Property damage at the professional's office

D (correct). Claims arising from negligent acts, errors, or omissions in the rendering of professional services

Rationale: Professional liability (errors and omissions) covers claims arising from negligent acts, errors, or omissions in the rendering of professional services. It is required for professionals whose advice can cause financial harm.

18. An "extended reporting period" (tail coverage) on a claims-made policy:

A (correct). Extends the time to report claims after the policy expires for occurrences during the policy period

- B. Extends the policy period for new occurrences after expiration
- C. Automatically renews the policy for an additional term
- D. Provides coverage for claims filed before the policy inception date

Rationale: Tail coverage extends the time to report claims after a claims-made policy expires or is cancelled, for occurrences that happened during the policy period. It is critical when changing insurers.

19. A "valued policy" pays in the event of total loss:

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

- B. The lesser of repair cost or market value
- C. The actual cash value at time of loss
- D. The replacement cost minus depreciation

Rationale: A valued policy specifies a pre-agreed fixed amount payable at total loss, regardless of actual cash value at the time of loss. Texas has a valued policy law for fire losses on real property.

20. 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. There must be a large number of similar exposure units
- C. The loss must be accidental from the insured's standpoint
- D. The loss must be measurable in financial terms

Rationale: An insurable risk must be accidental, measurable, not catastrophic, and have a large number of similar exposures. Intentional losses are excluded — the loss must be fortuitous from the insured's standpoint.

21. Business interruption insurance (business income coverage) pays for:

A (correct). Lost net income and continuing expenses during suspension of operations after a covered loss

- B. Loan payments during the period of restoration
- C. Additional marketing costs to rebuild customer base
- D. All revenue losses regardless of cause

Rationale: Business income coverage replaces lost net income and continuing expenses when a covered property loss forces suspension of operations. It does not cover losses from market changes or economic downturns.

22. Under a commercial auto policy, "uninsured motorist" (UM) coverage pays when:

- A. The insured collides with a vehicle owned by a government entity
- B. The insured's vehicle is stolen by an uninsured person
- C. The insured is at fault in an accident with an uninsured driver
- D (correct). The insured is injured by a driver who has no liability insurance**

Rationale: UM coverage pays when the insured is injured by a driver who has no liability insurance. In Texas, insurers must offer UM/UIM coverage; the named insured must reject it in writing to waive it.

23. The "sue and labor" clause in a property policy requires the insured to:

- A (correct). Take reasonable steps to protect property from further damage after a covered loss
- B. Sue the insurer if a claim is denied
- C. File a proof of loss within 24 hours of a loss
- D. Hire a public adjuster within 10 days of a loss

Rationale: The sue and labor clause (also called the "duties after loss" provision) requires the insured to take reasonable steps to protect property from further damage after a covered loss. Failure to do so can reduce or void coverage.

24. The "contractual liability" coverage in a CGL policy covers:

- A. Coverage for all written contracts regardless of content
- B (correct). Liability the insured assumes by contract such as indemnification agreements
- C. Liability for breach of contract by the insured
- D. All contractual disputes between the insured and third parties

Rationale: Contractual liability extends CGL coverage to liability the insured assumes by contract — such as indemnification agreements in construction contracts. Without it, assumed contractual liability is excluded.

25. The "extended replacement cost" endorsement provides:

- A. Guarantees the insurer will pay the full replacement cost regardless of the policy limit
- B. Reduces the coinsurance requirement to 70%
- C. Extends the policy period during the period of restoration
- D (correct). Pays above the policy limit if actual rebuilding costs exceed coverage due to inflation or code upgrades

Rationale: Extended replacement cost pays above the policy limit — typically 20-25% more — if actual rebuilding costs exceed the coverage amount due to construction cost inflation or code upgrades after a total loss.

26. Subrogation allows an insurer to:

- A (correct). Step into the insured's shoes and recover from the negligent third party after paying a claim
- B. Deny the insured's claim after payment to a third party
- C. Require the insured to sue the negligent party directly before filing a claim
- D. Share the loss equally with all insurers on the risk

Rationale: After paying a claim, subrogation lets the insurer step into the insured's shoes and recover the loss from the negligent third party responsible. It prevents the insured from collecting twice for the same loss.

27. Which of the following is covered under the "personal injury" portion of a CGL?

- A. Property damage caused by the insured's products
- B. Medical expenses of injured customers
- C (correct). False arrest, libel, and slander
- D. Bodily injury from a slip and fall on business premises

Rationale: Personal and advertising injury covers false arrest, libel, slander, invasion of privacy, wrongful eviction, and copyright infringement in advertising. Bodily injury from a slip and fall is covered under the bodily injury section, not personal injury.

28. Which of the following statements about the "appraisal" clause is correct?

- A. Waives the insurer's right to deny a claim
- B. Allows the insured to sue the insurer in any jurisdiction
- C. Determines whether a peril is covered under the policy
- D (correct). Resolves disputes about the amount of a loss, not whether a loss is covered

Rationale: The appraisal clause provides a mechanism to resolve disputes about the amount of a loss — not whether the loss is covered. Each party selects an appraiser; they choose an umpire, and a majority decision is binding.

29. A Texas resident who obtains an insurance license in another state and moves to Texas must:

- A (correct). Apply for a Texas resident license within 90 days of establishing Texas residency
- B. Continue operating under their out-of-state license for up to one year
- C. Immediately surrender all licenses until Texas residency is established
- D. Pass the Texas exam again regardless of prior licensure

Rationale: A licensee who moves to Texas must apply for a Texas resident license within 90 days of establishing residency. Their non-resident license in their former home state typically converts to a non-resident license.

30. The term "actual cash value" (ACV) is BEST defined as:

- A. The cost to replace property with new materials of like kind and quality
- B (correct). Replacement cost minus depreciation, reflecting the property's fair market value at time of loss
- C. The appraised value set at policy inception
- D. The original purchase price of the property

Rationale: ACV equals replacement cost minus depreciation. It reflects the property's fair market value at the time of loss, accounting for age and wear. This differs from replacement cost, which does not subtract depreciation.

31. The HO-8 homeowners form is designed for:

- A. Vacation and seasonal homes
- B (correct). Older homes where replacement cost exceeds market value; pays ACV or modified replacement cost
- C. New homes with high replacement costs
- D. Homes in high-risk flood zones

Rationale: HO-8 is designed for older homes where the replacement cost exceeds the market value. It pays on an actual cash value or modified replacement cost basis rather than full replacement cost.

32. Which of the following is an "unfair trade practice" under the Texas Insurance Code?

- A (correct). Offering a rebate not specified in the policy to induce a purchase
- B. Appointing a producer to represent multiple insurers
- C. Charging a premium that reflects the insured's actual risk
- D. Issuing a policy without a signed application

Rationale: Unfair trade practices include misrepresentation, twisting, rebating (offering inducements not in the policy), defamation, and unfair discrimination. These are prohibited and can result in license revocation.

33. Under Texas workers compensation, the "exclusive remedy" doctrine means:

- A. The employer can choose to deny claims without review
- B. The employer is immune from all workplace safety lawsuits
- C. The employee must exhaust workers comp before suing the employer
- D (correct). Workers comp benefits are the employee's only remedy against a subscribing employer for work injuries

Rationale: The exclusive remedy doctrine means that workers comp benefits are the employee's only remedy against a subscribing employer for work injuries — the employee cannot sue the employer in civil court.

34. A "difference in conditions" (DIC) policy is MOST commonly used to:

- A (correct). Fill gaps in standard property coverage for excluded perils like flood and earthquake
- B. Provide liability coverage for property damage to others
- C. Cover only property located outside the United States
- D. Replace all primary property coverage with a single policy

Rationale: A DIC policy fills gaps in standard property coverage — particularly for flood,

earthquake, and other perils excluded from the primary policy. It is commonly used by large commercial insureds with global operations.

35. Which of the following is TRUE about flood insurance under the NFIP?

A (correct). Standard property policies exclude flood; it must be purchased separately through the

NFIP

- B. Standard property policies automatically include flood coverage
- C. The NFIP provides coverage for all flood-related losses without limit
- D. Flood coverage is included only in commercial policies

Rationale: Standard commercial and personal property policies exclude flood damage. Flood coverage must be purchased separately through the National Flood Insurance Program (NFIP) or a private flood insurer.

36. Under a PAP, which of the following persons is considered an "insured" under Part A?

- A (correct). Named insureds, resident relatives, and permissive users of a covered auto**
- B. Only the named insured listed on the declarations page
- C. Named insured and spouse only
- D. Any driver who has a valid license

Rationale: Named insureds, resident relatives, and any person using a covered auto with permission are insureds under Part A. This broad definition ensures liability coverage extends to family members and permissive users.

37. The "subrogation" condition in a property policy allows the insurer to:

- A. Offset future premiums against prior claims paid
- B. Deny a claim if the insured contributed to the loss
- C (correct). Recover from the negligent third party responsible for the loss after paying a claim**
- D. Transfer the insured's rights to a reinsurer

Rationale: After paying a property claim, subrogation allows the insurer to recover its payment from the negligent third party responsible for the loss. The insured must cooperate and not impair the insurer's subrogation rights.

38. Under the Commercial Property Coverage Form, "extra expense" coverage pays for:

- A (correct). Additional costs above normal expenses to continue operations after a covered loss**
- B. The total revenue lost during a shutdown
- C. The cost of the physical repairs to the building
- D. The cost to hire extra staff during repairs

Rationale: Extra expense pays the additional costs above normal operating expenses to continue operations after a covered loss — such as renting temporary space. It is distinct from business income coverage.

39. Texas is unique among all U.S. states in that it:

- A. Sets the highest minimum workers comp benefits in the country
- B. Prohibits employees from suing employers for work injuries
- C. Requires all employers to carry workers compensation insurance
- D (correct). Allows private employers to opt out of the workers compensation system**

Rationale: Texas is the only state that allows private employers to legally opt out of the workers compensation system. Nonsubscribing employers lose certain legal defenses and face unlimited tort liability for workplace injuries.

40. A "surplus lines" insurer in Texas is:

- A (correct). A non-admitted carrier covering risks that admitted insurers are unwilling to write**
- B. A government-run insurer of last resort
- C. An insurer that only writes reinsurance contracts
- D. A state-licensed insurer subject to the guaranty fund

Rationale: Surplus lines insurers are non-admitted carriers that provide coverage for risks that admitted (licensed) insurers are unwilling to write. They are legal but not backed by the state guaranty fund.

41. The "additional living expenses" (ALE) coverage in a homeowners policy pays for:
- A. The full cost of a replacement home while repairs are made
 - B. Lost income if the insured cannot work due to property damage
 - C (correct). Additional costs to maintain normal living standard when home is uninhabitable after a covered loss**
 - D. The cost to repair or replace damaged personal property

Rationale: ALE pays the additional costs the insured incurs to maintain their normal standard of living when a covered loss makes their home uninhabitable — hotel costs, restaurant meals above normal food costs, etc.

42. A "reporting form" commercial property policy requires the insured to:
- A. Report any change in ownership within 30 days
 - B. Submit to an audit every 5 years
 - C (correct). Report actual values at risk periodically so premium reflects actual exposure**
 - D. Report all losses immediately regardless of amount

Rationale: A reporting form policy requires the insured to report actual values periodically (monthly or quarterly). The premium is adjusted based on actual values at risk, making it suitable for businesses with fluctuating inventory.

43. Under a homeowners policy, Section II — Liability covers:
- A. Coverage for damage to the insured's own property only
 - B. Workers compensation for household employees
 - C. Coverage for the insured's own bodily injury on the property
 - D (correct). Personal liability for BI/PD the insured is responsible for plus medical payments to others**

Rationale: Section II provides personal liability coverage for bodily injury or property damage the insured is legally responsible for, plus medical payments to others injured on the insured's property regardless of fault.

44. A "cancellation" of an insurance policy initiated by the insurer during the policy period requires:
- A. 30 days notice for all cancellations regardless of reason
 - B. No advance notice is required for insurer-initiated cancellations
 - C (correct). 10 days for nonpayment; 30 days for other reasons within first 60 days; 60 days for policies in force over 60 days**
 - D. 60 days notice for all mid-term cancellations

Rationale: Texas law requires specific advance notice for mid-term cancellations: 10 days for nonpayment of premium, 30 days for other reasons within the first 60 days, and 60 days for policies in force longer than 60 days.

45. The Texas FAIR Plan provides:
- A. Health insurance for uninsurable applicants
 - B. Auto insurance for drivers rejected by all admitted carriers
 - C (correct). Basic property insurance to applicants who cannot get coverage in the voluntary market**
 - D. All lines of insurance for high-risk applicants statewide

Rationale: The Texas FAIR (Fair Access to Insurance Requirements) Plan provides basic property insurance to applicants who cannot obtain coverage in the voluntary market due to the condition or location of the property.

46. A "blanket" property policy differs from a "specific" policy in that:

- A. A blanket policy requires a higher coinsurance percentage than a specific policy
- B. A blanket policy assigns separate limits to each location
- C (correct). A blanket policy covers multiple locations or property types under a single limit**
- D. A blanket policy only covers real property, not personal property

Rationale: A blanket policy covers multiple locations or types of property under a single limit. A specific policy assigns a separate limit to each item or location. Blanket policies offer more flexibility but require higher total limits.

47. Under a standard homeowners policy, which of the following is NOT covered?

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

Rationale: Standard homeowners policies exclude flood, earthquake, and normal wear and tear. Theft, fire, and windstorm are covered perils under HO-2 and HO-3.

48. Under a commercial auto policy, "hired auto" coverage applies to:

- A. Vehicles owned by employees and used for business
- B. All vehicles used in connection with the insured's business
- C. Vehicles owned by the insured but not listed on the policy
- D (correct). Vehicles the insured rents, hires, borrows, or leases for business use**

Rationale: Hired auto coverage applies to vehicles the insured rents, hires, borrows, or leases for business use. It does not cover vehicles owned by the insured or vehicles provided by employees.

49. A moral hazard in insurance refers to:

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

Rationale: Moral hazard arises from the dishonest character or fraudulent intent of the insured — for example, an insured who might exaggerate a claim. This differs from morale hazard, which is carelessness due to having insurance.

50. Under Texas workers compensation, "temporary total disability" (TTD) benefits pay:

- A. 100% of the worker's average weekly wage
- B (correct). 70% of the worker's average weekly wage**
- C. 50% of the worker's average weekly wage
- D. A fixed statutory amount set by the DWC

Rationale: TTD benefits replace a portion of the injured worker's lost wages when they are completely unable to work due to a work injury but are expected to recover. In Texas, TTD pays 70% of the worker's average weekly wage.

51. Under a PAP, "Part B — Medical Payments" coverage pays:

- A (correct). Reasonable medical expenses for the insured and passengers regardless of fault**
- B. Medical expenses only if the insured is at fault
- C. Lost wages for injured passengers
- D. Pain and suffering damages for accident victims

Rationale: Medical payments (MedPay) covers reasonable medical expenses for the named insured and passengers injured in an auto accident, regardless of fault. It applies to the insured as a pedestrian struck by a vehicle too.

52. Which of the following is TRUE about homeowners insurance in Texas?

- A (correct). Texas uses TDI promulgated forms (HO-A, HO-B, HO-C) or independently filed forms;
HO-A is most restrictive
- B. Texas homeowners policies must provide flood coverage by law
- C. Texas does not regulate homeowners policy forms
- D. Texas requires all homeowners insurers to use ISO forms only

Rationale: Texas allows insurers to use the Texas Department of Insurance promulgated forms (HO-A, HO-B, HO-C) or independently filed forms. The HO-A is the most restrictive (named peril, ACV); HO-C is the broadest (open peril, replacement cost).

53. An "occurrence" trigger for property insurance means:

- A. The loss and claim must both occur during the policy period
- B. Coverage only applies if the loss is reported within 30 days
- C. The claim must be filed during the policy period
- D (correct). The loss occurred during the policy period, regardless of when the claim is filed

Rationale: Property policies are triggered by the occurrence (happening) of a covered loss during the policy period. The claim can be filed after policy expiration as long as the loss occurred while the policy was in force.

54. An "umbrella" liability policy differs from an "excess" liability policy in that:

- A. An excess policy covers gaps not addressed by underlying policies
- B (correct). An umbrella can cover gaps in underlying coverage; excess only adds limits without expanding coverage
- C. An umbrella has lower limits than an excess policy
- D. There is no practical difference between umbrella and excess policies

Rationale: An umbrella policy provides broader coverage than the underlying policies — it can cover some gaps in the underlying coverage. Excess policies simply add limits on top of the underlying policy without expanding coverage.

55. The "claims-made" form CGL policy covers claims:

- A. For all claims regardless of when the occurrence took place
- B. Any time for occurrences during the policy period regardless of when claimed
- C. Only for claims filed within 30 days of the occurrence
- D (correct). First made during the policy period for occurrences after the retroactive date

Rationale: A claims-made CGL covers claims first made during the policy period for occurrences after the retroactive date. The policy must be in force when both the injury occurs and the claim is made.

56. The "Causes of Loss — Special Form" excludes which of the following?

- A. Collapse and water damage from plumbing
- B (correct). Earth movement, flood, war, and nuclear hazard
- C. Fire, windstorm, and hail
- D. Theft, vandalism, and malicious mischief

Rationale: The special form covers all causes of loss except those specifically excluded. Earth movement, flood, war, nuclear hazard, and governmental action are among the standard exclusions.

57. Under a commercial property policy, the insured's duty to provide a "proof of loss" requires:

- A. Notify the mortgagee before filing any claim
- B. File a police report within 24 hours of any loss
- C (correct). Submit a sworn statement detailing the loss circumstances and amount within a specified time
- D. Hire a licensed public adjuster to document the loss

Rationale: After a loss, the insured must submit a sworn proof of loss within a specified time (typically 60 days) detailing the circumstances, amount of loss, and supporting documentation. Failure to comply can jeopardize the claim.

58. Under Texas workers compensation, "impairment income benefits" (IIB) are paid:

- A. For the first 90 days after the injury occurs
- B. Only for injuries resulting in permanent total disability
- C. During the entire period of disability regardless of recovery

D (correct). After maximum medical improvement is reached, based on the impairment rating

Rationale: IIB compensates workers for permanent impairment — a percentage loss of physical function — after maximum medical improvement is reached. The benefit amount is based on the impairment rating assigned by the treating physician.

59. Under the commercial auto policy, "physical damage" coverage includes:

- A. Liability for bodily injury and property damage to others
- B (correct). Collision and other than collision (comprehensive) coverage**
- C. Medical payments for the driver and passengers
- D. Uninsured motorist bodily injury coverage

Rationale: Physical damage coverage includes collision (damage from impact with another object) and other than collision/comprehensive (fire, theft, windstorm, vandalism, flood). Liability coverage is separate.

60. A "personal umbrella" policy provides:

- A. Coverage only for claims excluded by underlying policies
- B (correct). Excess liability above underlying auto and homeowners limits, with some gap coverage**
- C. Primary liability replacing the auto and homeowners policies
- D. Property coverage for high-value personal items

Rationale: A personal umbrella provides excess liability coverage above the limits of underlying auto and homeowners policies. It also covers some claims not covered by underlying policies (dropping down to a retained limit).

61. Under a CGL policy, "personal and advertising injury" includes:

- A. Bodily injury from slips and falls on business premises
- B. Injuries to employees during the course of employment
- C. Property damage caused by the insured's products
- D (correct). Libel, slander, false arrest, wrongful eviction, and copyright infringement in advertising**

Rationale: Personal and advertising injury covers offenses such as libel, slander, false arrest, malicious prosecution, wrongful eviction, and copyright infringement in advertising. It does not cover bodily injury.

62. When a Texas insurer nonrenews a homeowners policy, they must provide written notice at least:

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

Rationale: Texas law requires insurers to give at least 30 days advance written notice of nonrenewal for homeowners policies. For auto policies, the notice requirement is also 30 days prior to expiration.

63. Which of the following is the purpose of a "waiver of subrogation" endorsement?

- A. Eliminates the deductible for losses caused by third parties
- B. Requires the insurer to pay before pursuing recovery
- C. Waives the insured's right to sue the insurer
- D (correct). Prevents the insurer from recovering from a specified third party after paying a claim**

Rationale: A waiver of subrogation endorsement prevents the insurer from recovering from a specified third party after paying a claim. It is commonly required by building owners in commercial leases.

64. Which of the following is typically excluded from a CGL policy?

- A. Personal injury arising from advertising
- B. Property damage caused by the insured's operations
- C. Bodily injury to customers on business premises

D (correct). Professional liability (errors and omissions)

Rationale: Professional liability (errors and omissions) is excluded from the CGL. A contractor's faulty workmanship causing property damage to others may be covered, but professional advice or design errors require a separate professional liability policy.

65. Under the Texas Insurance Code, an insurer must give how many days notice to cancel a policy for nonpayment of premium?

- A. 60 days
- B. 30 days

C (correct). 10 days

- D. 5 days

Rationale: Texas requires 10 days advance written notice to cancel a policy for nonpayment of premium. For cancellations for other reasons within the first 60 days, 30 days notice is required.

66. The "occurrence" form CGL policy covers claims:

A (correct). During the policy period regardless of when the claim is filed

- B. Any time as long as the insurer is still in business
- C. Only during the policy period if the claim is also filed during the policy period
- D. Within one year after the policy expires

Rationale: An occurrence CGL covers bodily injury or property damage that occurs during the policy period, regardless of when the claim is filed. This provides long-tail coverage for injuries that manifest years later.

67. For a personal auto policy in force for more than 60 days, how much notice must a Texas insurer give before cancelling?

- A. No notice required after 60 days
- B. 60 days for any cancellation

C (correct). 10 days for nonpayment; 30 days for any other reason

- D. 30 days for all cancellations

Rationale: After a personal auto policy has been in force for 60 days, the insurer must give 10 days notice for nonpayment and 30 days for any other reason. The 60-day rule limits the insurer's ability to cancel established policies.

68. Under Texas law, an insurer that engages in "unfair discrimination" in underwriting:

- A. Is permitted if the discrimination is disclosed to the applicant
- B. Faces no penalty if the practice is consistent across all applicants
- C. Is only prohibited for personal lines, not commercial

D (correct). May have their license suspended or revoked and face fines

Rationale: Unfair discrimination means treating insureds differently based on factors not actuarially justified — such as race, religion, or national origin. Underwriting based on legitimate risk factors (claims history, credit score within limits) is permitted.

69. The purpose of the "insuring agreement" in a policy is to:

- A. Identify the insured's duties after a loss
- B. Define the premium payment schedule
- C. List all exclusions and conditions that limit coverage

D (correct). Describe the insurer's promise and the broad scope of what is covered

Rationale: The insuring agreement is the core coverage grant — it describes what the insurer promises to do (pay for covered losses) and the broad scope of coverage. Exclusions and conditions then limit and define that grant.

70. Under the commercial property policy, "accounts receivable" coverage protects against:

- A. Bad debts written off due to customer insolvency
- B. Electronic fund transfers made without authorization
- C. Fraudulent use of the insured's credit accounts
- D (correct). Inability to collect money owed when records are destroyed by a covered peril**

Rationale: Accounts receivable coverage protects the insured against inability to collect money owed when records are destroyed by a covered peril. Without the records, the insured cannot prove what is owed.

71. Under the commercial property policy, "loss of rents" coverage protects:

- A. Tenants against increases in rent after a covered loss
- B. Business owners against lost profits from market downturns
- C (correct). Property owners against lost rental income when a covered loss makes premises untenantable**
- D. Lenders against mortgage payment defaults after a loss

Rationale: Loss of rents coverage protects property owners against lost rental income when a covered loss makes leased premises untenantable. It is analogous to business income coverage for owner-occupied properties.

72. Under a commercial auto policy in Texas, the minimum liability limits required by law are:

- A. 50/100/50
- B. 15/30/10
- C. 25/50/25
- D (correct). 30/60/25 — \$30,000 per person, \$60,000 per occurrence BI, \$25,000 PD**

Rationale: Texas requires minimum auto liability limits of 30/60/25 — \$30,000 per person bodily injury, \$60,000 per occurrence bodily injury, and \$25,000 property damage. These are the same for personal and commercial autos.

73. A "deductible" in an insurance policy serves to:

- A. Eliminate the need for an insuring agreement
- B (correct). Reduce small nuisance claims, lower premiums, and encourage loss prevention**
- C. Transfer the insured's entire risk to the insurer after a threshold is met
- D. Force the insured to purchase additional coverage for small losses

Rationale: Deductibles reduce small nuisance claims, lower premiums, and encourage the insured to prevent losses since they bear the first portion of any loss. They align the insured's financial interest with loss prevention.

74. Equipment breakdown (boiler and machinery) coverage protects against:

- A (correct). Sudden and accidental breakdown of boilers, HVAC, and electrical equipment**
- B. Theft of business equipment
- C. Normal wear and tear on mechanical equipment
- D. Losses caused by earthquake to building equipment

Rationale: Equipment breakdown coverage (formerly boiler and machinery) covers sudden and accidental breakdown of covered equipment — such as boilers, HVAC systems, and electrical equipment. Standard property policies exclude mechanical breakdown.

75. The "products-completed operations" hazard under a CGL covers:

- A (correct). Bodily injury or property damage from products after leaving the insured's control or from completed work**
- B. Injuries to employees working on the insured's products
- C. Damage to the insured's own products during manufacturing
- D. Liability for product recalls and withdrawal costs

Rationale: Products-completed operations covers bodily injury or property damage arising from products after they leave the insured's control, or from completed work. It is a separate aggregate limit from premises and operations.

76. Under a Builders Risk policy, coverage typically ends when:

- A (correct). The building is completed and occupied, the policy expires, or the insured's interest ends**
- B. The building permit is issued
- C. The project financing is secured
- D. The foundation is completed

Rationale: Builders risk coverage is designed for buildings under construction and typically ends when the building is completed and occupied, the policy expires, or the insured's interest in the property ends.

77. A commercial property policy's "liberalization" clause means:

- A (correct). Automatically extends broadened coverage to existing policies without additional premium**
- B. Requires the insured to pay additional premium for any coverage improvement
- C. Allows the insurer to reduce coverage mid-term without notice
- D. Liberalizes the cancellation notice requirements

Rationale: The liberalization clause automatically extends any broadening of coverage that the insurer makes to all existing policies of the same form, without additional premium, if the broadening takes effect during the policy period.

78. The doctrine of proximate cause determines:

- A. Whether the insured was negligent in causing the loss
- B. The total dollar amount of a covered loss
- C. Whether the policy was in force at the time of loss
- D (correct). The dominant uninterrupted cause that sets in motion the chain of events leading to a loss**

Rationale: Proximate cause is the dominant, uninterrupted cause that sets in motion the chain of events leading to a loss. Insurers use it to determine whether a loss is covered under a policy's insuring agreement.

79. The "ordinance or law" endorsement covers:

- A. Coverage for losses caused by government-ordered property seizure
- B. The cost of permits required before construction can begin
- C. The cost to demolish and remove an undamaged portion of a building
- D (correct). The additional cost to rebuild to current building codes after a covered loss**

Rationale: Ordinance or law coverage pays the additional cost to rebuild to current building codes after a covered loss, when codes require upgrades beyond the original construction. Standard policies pay only to restore the original structure.

80. Which of the following is NOT a characteristic of an insurance contract?

- A (correct). Bilateral**
- B. Adhesion
- C. Conditional
- D. Aleatory

Rationale: Insurance contracts are adhesion, aleatory, unilateral, and conditional. They are NOT bilateral (both parties making enforceable promises) — the insured makes no legally binding promise to pay premiums.

81. Which of the following describes "ocean marine" insurance?

- A. Vehicles transported by truck or rail
- B. Aircraft and their cargo
- C (correct). Ships (hulls), cargo, and liability for vessels on the ocean**
- D. Property stored in warehouses near ports

Rationale: Ocean marine insurance covers ships (hulls), cargo, and liability for vessels on the ocean. It is the oldest form of insurance and was the precursor to inland marine coverage

for property in transit on land.

82. An "inland marine" policy is MOST likely used to cover:

- A (correct). Property in transit or mobile property such as contractor equipment and fine arts**
- B. Liability for injuries occurring on business premises
- C. Employee dishonesty and theft
- D. Real property permanently attached to land

Rationale: Inland marine coverage insures property that is mobile or in transit — contractor's equipment, fine arts, cameras, musical instruments, and goods being shipped. It evolved from ocean marine insurance.

83. A stock insurance company is owned by:

- A. The state insurance department
- B (correct). Its shareholders**
- C. Its policyholders
- D. A reinsurance pool

Rationale: Stock insurers are owned by shareholders who invest capital and share in profits or losses. This distinguishes them from mutual companies, which are owned by policyholders.

84. Which of the following is TRUE about "functional replacement cost" coverage?

- A. Pays the full replacement cost without applying depreciation
- B (correct). Pays to replace an older building with one using modern materials that performs the same function**
- C. Pays additional amounts for ornamental or historic features
- D. Pays the original construction cost of the building

Rationale: Functional replacement cost pays to replace an older building with one that performs the same function but uses modern materials and construction methods, even if that results in a different structure. It avoids overinsuring obsolete features.

85. Which of the following is TRUE about a "fire legal liability" endorsement?

- A. Covers the landlord's liability to tenants for fire injuries
- B. Provides coverage for intentional fire damage by the insured
- C (correct). Protects a tenant who negligently causes fire damage to a landlord's building**
- D. Replaces the need for a commercial general liability policy

Rationale: Fire legal liability coverage protects a tenant who negligently causes fire damage to a landlord's building. Standard liability policies may exclude property in the insured's care, custody, or control.

86. Which of the following BEST describes a "warranty" in an insurance contract?

- A. A condition that must be met only at the time of renewal
- B. A promise to pay premiums on time
- C. A statement believed to be true at the time it is made
- D (correct). A statement guaranteed to be true; breach can void the policy**

Rationale: A warranty is a statement by the insured that is guaranteed to be true. Breach of a warranty — even if unrelated to the loss — can void the policy, making warranties more stringent than representations.

87. Which of the following describes "contingent liability" coverage?

- A. Provides coverage for losses at contingent business locations
- B. Covers the insured's liability for acts of employees
- C (correct). Covers liability arising from acts of independent contractors or subcontractors without adequate insurance**
- D. Covers the insured's liability for products sold through distributors

Rationale: Contingent liability covers an insured for liability arising from the acts of independent contractors or subcontractors performing work on their behalf, when those contractors do

Exam page: californiacerts.com/exams/tx-property-casualty-insu...

Online practice: californiacerts.com/exams/tx-property-casualty-insu...

not carry adequate insurance.

88. Which of the following describes "estoppel" in insurance?

- A. The insured waives a known right under the policy
- B. The insurer exercises its right to cancel coverage retroactively
- C. Both parties agree to modify coverage terms mid-policy
- D (correct). The insurer is barred from denying coverage when its prior actions led the insured to**

believe coverage existed

Rationale: Estoppel prevents an insurer from denying coverage based on a policy provision if the insurer's prior actions or statements led the insured to reasonably believe coverage existed. It protects the insured from inconsistent insurer conduct.

89. An "open peril" or "special form" property policy covers:

- A. Only the perils listed in the policy
- B. All causes of loss with no exclusions
- C (correct). All causes of loss except those specifically excluded**
- D. Only losses occurring at the described premises

Rationale: Open peril coverage covers all causes of loss except those specifically excluded. The burden is on the insurer to prove an exclusion applies, unlike named peril where the insured must show the peril is listed.

90. Which type of insurer is owned by its policyholders?

- A (correct). A mutual company**
- B. A surplus lines carrier
- C. A captive insurer
- D. A stock company

Rationale: A mutual insurance company is owned by its policyholders, who may receive dividends when the company performs well. Dividends from mutual companies are considered a return of premium and are not taxable.

91. A "retroactive date" on a claims-made CGL policy:

- A (correct). The earliest date for which claims are covered; occurrences before this date are not covered**
- B. The expiration date of the prior policy
- C. The date the policy was first issued
- D. The date the insurer begins investigating a claim

Rationale: The retroactive date is the earliest date for which claims are covered under a claims-made policy. Occurrences before the retroactive date are not covered even if claimed during the policy period.

92. A property insured for \$200,000 replacement cost has an 80% coinsurance requirement. The property's replacement cost is \$300,000. A \$60,000 loss occurs. How much does the insurer pay (ignoring deductible)?

- A. \$48,000
- B. \$40,000
- C (correct). \$50,000**
- D. \$60,000

Rationale: Required coverage: $80\% \times \$300,000 = \$240,000$. Amount carried: \$200,000. Formula: $(\$200,000 / \$240,000) \times \$60,000 = \$50,000$. The insured bears the remaining \$10,000 as a co-insurer.

93. The "fellow employee" exclusion in a workers comp policy means:

- A. Bars coverage for pre-existing conditions
- B. Excludes injuries caused by the employee's own negligence
- C. Prevents the employer from recovering overpaid benefits
- D (correct). Prevents an injured worker from suing a coworker under the employer's workers comp policy**

Rationale: The fellow employee exclusion prevents an injured worker from suing a coworker under the employer's workers comp policy. The injured worker's remedy is through the workers comp system, not a suit against the coworker.

94. The "principle of contribution" applies when:

- A. When two policies cover different risks owned by the same insured
- B (correct). When two or more policies cover the same loss, each pays its pro-rata share**
- C. When the insurer and insured disagree on the value of a claim
- D. When a policy is cancelled mid-term and premium is refunded

Rationale: Contribution applies when two or more policies cover the same loss. Each insurer pays its pro-rata share, preventing the insured from collecting more than the actual loss across multiple policies.

95. Under a standard fire policy, which of the following perils is covered?

- A. Theft and vandalism
- B. Windstorm and hail
- C. Flood and earthquake
- D (correct). Fire, lightning, and removal**

Rationale: The standard fire policy covers fire, lightning, and removal of property endangered by a covered peril. It does not cover windstorm, hail, or water damage without endorsement.

96. The law of large numbers in insurance means:

- A. Smaller risks are pooled separately from larger risks
- B (correct). As similar exposure units increase, actual loss experience approaches predicted loss experience**
- C. Larger losses are more common than smaller losses
- D. The insurer must pay all claims regardless of premium collected

Rationale: The law of large numbers states that as the number of similar exposure units increases, the insurer's actual loss experience approaches its predicted (expected) loss experience, making losses more predictable and premiums more accurate.

97. The "care, custody, or control" exclusion in a CGL policy excludes:

- A (correct). Property in the insured's care, custody, or control**
- B. Property of employees while at the workplace
- C. Property owned by the insured at any location
- D. Property damage caused intentionally by the insured

Rationale: The care, custody, or control exclusion bars coverage for damage to property in the insured's care — for example, a repair shop damages a customer's car. A separate "bailee" policy or endorsement is needed.

98. Under a PAP, "Part C — Uninsured Motorist" coverage applies when:

- A. The insured's vehicle is stolen by an uninsured driver
- B. The insured is injured as a pedestrian by any vehicle
- C. The insured is at fault and the other driver has no insurance
- D (correct). The insured is injured by a driver with no liability insurance or a hit-and-run driver**

Rationale: UM coverage pays when the insured is injured by a driver with no liability insurance or by a hit-and-run driver. In Texas, insurers must offer UM/UIM; it must be rejected in writing.

99. Under a commercial property policy, "newly acquired property" is typically covered:

- A. For the full policy limit immediately upon acquisition
- B (correct). Automatically for 30 days up to a specified limit while the insured arranges to formally add the property**
- C. Only if the property is in the same state as the existing locations
- D. Only after the insured submits a written request to add the property

Rationale: Most commercial property policies automatically cover newly acquired buildings and personal property for 30 days (sometimes up to \$250,000 for buildings) while the insured arranges to add them formally to the policy.

100. The "inflation guard" endorsement on a homeowners policy:

- A (correct). Automatically increases the dwelling limit periodically to keep pace with construction cost inflation**
- B. Adjusts the premium downward if construction costs decline
- C. Increases all coverage limits including personal property by the same percentage
- D. Guarantees the insurer will pay full replacement cost regardless of the policy limit

Rationale: The inflation guard endorsement automatically increases the dwelling coverage limit periodically (typically quarterly) to keep pace with construction cost inflation, helping prevent the insured from becoming underinsured.

101. The Commercial General Liability (CGL) policy covers which of the following?

- A. Professional errors and omissions
- B. Auto liability and workers compensation
- C (correct). Bodily injury, property damage liability, personal and advertising injury, and medical payments**
- D. Employee theft and dishonesty

Rationale: The CGL covers bodily injury and property damage liability, personal and advertising injury, and medical payments arising from the insured's operations, premises, and products. It does not cover auto, workers comp, or professional liability.

102. Under the PAP, "underinsured motorist" (UIM) coverage pays when:

- A. The at-fault driver has no insurance at all
- B (correct). The at-fault driver has insurance but not enough to cover the insured's damages**
- C. The insured's own liability coverage is insufficient
- D. The insured is underinsured relative to the value of their vehicle

Rationale: UIM pays when the at-fault driver has liability insurance but not enough to cover the insured's damages. The UIM insurer pays the difference between the at-fault driver's limits and the insured's actual damages.

103. Which of the following is an example of a "physical hazard"?

- A (correct). A tangible condition such as faulty wiring or icy sidewalks that increases the chance of loss**
- B. The tendency to be careless because of having insurance
- C. A misrepresentation on an insurance application
- D. An insured who intentionally causes a loss

Rationale: A physical hazard is a tangible condition that increases the chance of loss — such as faulty wiring, icy sidewalks, or flammable materials stored near heat sources. It differs from moral and morale hazards.

104. The HO-3 homeowners policy covers personal property on what basis?

- A (correct). Named peril basis**
- B. Replacement cost without depreciation
- C. Agreed value basis
- D. Open peril basis

Rationale: Under HO-3, the dwelling is covered on an open peril basis but personal property

(contents) is covered on a named peril basis. To get open peril contents coverage, the insured needs HO-5.

105. The Commercial Property Building and Personal Property Coverage Form (CPP) covers which of the following?

- A. Land and outdoor property
- B (correct). The building, business personal property, and personal property of others in the insured's care**
- C. Money and securities without limit
- D. Vehicles and aircraft owned by the business

Rationale: The CPP BPP form covers the building, business personal property of the insured, and personal property of others in the insured's care. It does not automatically cover accounts receivable or vehicles.

106. The coinsurance clause in a commercial property policy requires the insured to carry coverage equal to at least what percentage of the property's value?

- A (correct). 80%**
- B. 100%
- C. 90%
- D. 70%

Rationale: The standard coinsurance requirement is 80% of the property's replacement cost value. If the insured carries less, they become a co-insurer and share in any loss proportionally.

107. Which of the following BEST describes "agreed value" coverage?

- A. Coverage that applies only to agreed-upon perils
- B. Coverage that increases the policy limit after a total loss
- C. Coverage that pays replacement cost on a blanket basis
- D (correct). Coverage that suspends the coinsurance clause with a pre-agreed value**

Rationale: Agreed value suspends the coinsurance clause — the insurer and insured agree on the value of the property at policy inception, and the insurer pays that amount in full for a total loss without applying the coinsurance formula.

108. The "business pursuits" exclusion in a homeowners policy means:

- A. All business activities are covered under Section II of the homeowners policy
- B (correct). Homeowners liability excludes business activities; a separate business policy or endorsement is needed**
- C. The exclusion only applies to businesses with employees
- D. Business pursuits are covered if conducted in the home

Rationale: The homeowners policy excludes liability and property damage arising from business activities. An insured who runs a home-based business needs a business owner's policy or homeowners endorsement for business coverage.

109. The "protective safeguards" endorsement may suspend coverage if:

- A. The insured fails to pay premium on time
- B (correct). The insured fails to maintain required fire protection systems and a loss occurs**
- C. The insured changes the use of the property
- D. The property is vacant for more than 30 days

Rationale: The protective safeguards endorsement requires the insured to maintain specific fire protection systems (sprinklers, alarms). If the insured fails to maintain them and a loss occurs, coverage may be suspended or reduced.

110. Which of the following statements about insurance policy exclusions is correct?

- A (correct). Exclusions remove specific perils, property, or situations from coverage granted in the insuring agreement**
- B. Exclusions expand coverage beyond the insuring agreement
- C. Exclusions are optional provisions the insured may waive
- D. Exclusions only apply to commercial policies, not personal lines

Rationale: Exclusions narrow the coverage granted in the insuring agreement. They remove specific perils, property, or situations from coverage. Understanding what is excluded is as important as understanding what is covered.

111. The National Flood Insurance Program (NFIP) maximum coverage limits for a residential building are:

- A (correct). \$250,000 building / \$100,000 contents**
- B. \$100,000 building / \$50,000 contents
- C. \$350,000 building / \$150,000 contents
- D. \$500,000 building / \$250,000 contents

Rationale: The NFIP provides up to \$250,000 for residential building coverage and up to \$100,000 for personal property/contents. Higher limits require private flood insurance above the NFIP maximum.

112. The "pair and set" clause in a property policy addresses:

- A. Excludes pairs and sets from coverage entirely
- B. Requires both items to be damaged before paying any claim
- C (correct). Pays only the reduction in value of the entire pair or set caused by the loss of one item**
- D. Pays full replacement cost of the undamaged item in the pair or set

Rationale: The pair and set clause limits payment when one item from a matched set is lost or damaged. The insurer pays only the reduction in value of the entire set, not the full replacement cost of the pair or set.

113. An insurance policy is described as "aleatory" because:

- A. The insurer's obligation is conditional on premium payment only
- B. Both parties exchange equal value at the time of contract formation
- C. The insurer always pays more than the premium collected
- D (correct). The values exchanged are unequal and depend on an uncertain future event**

Rationale: An aleatory contract is one where the values exchanged are unequal and depend on an uncertain event. The insured pays premiums but may receive nothing, or may receive far more than paid, depending on whether a loss occurs.

114. Under the commercial property broad form, which of the following perils is added compared to the basic form?

- A (correct). Collapse, weight of snow/ice/sleet, and water damage from plumbing systems**
- B. Earth movement and volcanic eruption
- C. Theft and vandalism
- D. Flood and earthquake

Rationale: The broad form adds collapse, weight of snow/ice/sleet, and water damage from plumbing systems to the basic form's covered perils. The special form then covers all perils except those excluded.

115. Under the Texas Insurance Code, "twisting" refers to:

- A. Offering a premium discount to retain a policyholder
- B. Replacing a policy with one from the same insurer
- C (correct). Misrepresentation to induce a policyholder to cancel an existing policy and replace it to their detriment**
- D. Failing to disclose policy exclusions to an applicant

Rationale: Twisting is an unfair trade practice involving misrepresentation to induce a policyholder

to cancel an existing policy and replace it with a new one to the policyholder's detriment. It is prohibited and grounds for license suspension.

116. The "employers liability" coverage in a workers comp policy protects the employer against:
- A. Medical expenses not covered by the workers comp policy
 - B. Fines and penalties imposed by the Division of Workers Compensation
 - C (correct). Suits by injured employees or their families outside the workers comp exclusive remedy**
 - D. All workers comp claims filed against the employer

Rationale: Employers liability covers suits by injured employees or their families that fall outside the workers comp exclusive remedy — such as loss of consortium claims by spouses or dual capacity suits.

117. An insurance policy is considered a contract of adhesion because:
- A. It guarantees equal bargaining power between insurer and insured
 - B. It allows the insured to modify coverage terms at any time
 - C. It requires both parties to negotiate every policy term
 - D (correct). It is drafted entirely by the insurer and ambiguities are construed against the insurer**

Rationale: Adhesion means the policy is drafted entirely by the insurer and presented on a take-it-or-leave-it basis. Because the insured has no bargaining power, courts construe ambiguities against the insurer.

118. Under a CGL, the "damage to premises rented to you" coverage pays for:
- A. Loss of the insured's personal property in rented space
 - B. All property damage to leased space regardless of cause
 - C (correct). Property damage to rented premises caused by fire**
 - D. The landlord's liability to tenants for building defects

Rationale: This coverage (formerly called fire legal liability) covers property damage to premises rented to the insured caused by fire. The standard limit is \$100,000, which can be increased by endorsement.

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

Rationale: Indemnity restores the insured to the same financial position before the loss — no better, no worse. It prevents profiting from insurance and is the foundation of property and casualty loss settlement.

120. "Non-owned auto" coverage under a commercial auto policy covers:
- A. The employee's own liability when driving a personal vehicle for business
 - B. Physical damage to an employee's personal vehicle during business use
 - C (correct). The employer's liability when employees use personal vehicles for business**
 - D. All vehicles not specifically listed on the commercial auto policy

Rationale: Non-owned auto coverage applies when employees use their personal vehicles for business purposes. It covers the employer's liability arising from such use, not the employee's own liability or physical damage to their vehicle.

121. A "garage liability" policy is designed for:

- A (correct). Auto dealers and service operations for liability from their business and customer vehicles in their care
- B. Taxi and rideshare companies for passenger liability
- C. Any business that owns a fleet of commercial vehicles
- D. Trucking companies for cargo in transit

Rationale: Garage liability covers auto dealers and service operations for liability arising from their business operations, including customer vehicles in their care and autos they sell. Standard CGL policies exclude garage operations.

122. Insurable interest in property insurance must exist:

- A. At the time the policy is renewed
- B. At the time the premium is paid
- C. At the time the policy is applied for
- D (correct). At the time of loss

Rationale: For property insurance, insurable interest must exist at the time of loss. For life insurance, it must exist at the time the policy is issued. Without insurable interest, the policy is an unenforceable wagering contract.

123. The Texas Life, Accident, Health, and Hospital Service Insurance Guaranty Association (and its P&C equivalent) protects policyholders when:

- A. Any insurer licensed in Texas fails to pay a claim
- B. Only life and health insurers, not P&C carriers
- C. All insurers operating in Texas regardless of admitted status
- D (correct). An admitted insurer becomes insolvent; surplus lines carriers are not covered

Rationale: Texas guaranty associations protect policyholders if an admitted insurer becomes insolvent. Coverage is limited — typically \$300,000 for P&C claims. Surplus lines carriers are NOT covered by the guaranty fund.

124. An "employer's non-owned auto" liability endorsement covers:

- A. All auto liability of the employer regardless of vehicle ownership
- B. Physical damage to employee vehicles used for business
- C. The employee's liability for accidents in personal vehicles
- D (correct). The employer's liability when employees use personal vehicles for business errands

Rationale: This endorsement covers the employer's liability when employees use personal vehicles for business errands. It protects the employer — not the employee — against third-party bodily injury and property damage claims.

125. Which Texas state agency regulates the insurance industry?

- A. Texas State Board of Insurance Producers
- B (correct). Texas Department of Insurance (TDI)
- C. Texas Department of Commerce
- D. National Association of Insurance Commissioners

Rationale: The Texas Department of Insurance (TDI), led by the Commissioner of Insurance, regulates insurers, agents, and adjusters in Texas. The Commissioner is appointed by the Governor.

126. The term "adverse selection" in insurance refers to:

- A. Insurers select only the safest risks to maximize profit
- B. The insurer rejects all applications above a certain risk threshold
- C. High-risk individuals are less likely to seek insurance
- D (correct). Higher-risk individuals are more likely to seek insurance, skewing the pool toward greater risk

Rationale: Adverse selection occurs when higher-risk individuals are more likely to seek insurance than lower-risk individuals, skewing the insured pool toward greater-than-average risk and potentially making premiums inadequate.

127. Under Texas law, "rebating" in insurance means:

- A. Charging different premiums for different risk levels
- B. Paying a producer a commission for selling a policy
- C (correct). Offering or giving anything of value not in the policy as an inducement to purchase**
- D. Refusing to renew a policy based on claims history

Rationale: Rebating is offering or giving anything of value not specified in the policy as an inducement to purchase insurance. It is an unfair trade practice prohibited under the Texas Insurance Code.

128. Under the Texas Insurance Code, a producer who receives insurance premiums from a client must:

- A. Deposit premiums in a personal account until the policy is issued
- B. Return premiums to the client until coverage is confirmed
- C. Hold premiums for up to 90 days before remitting
- D (correct). Promptly remit premiums to the insurer or hold them in a separate fiduciary account**

Rationale: Texas law requires producers to promptly remit premiums to the insurer or hold them in a separate fiduciary account. Commingling client premiums with personal funds is prohibited.

129. A "liquor liability" endorsement is needed when:

- A (correct). The insured is in the business of selling, serving, or furnishing alcoholic beverages**
- B. The insured serves alcohol at a company holiday party
- C. The insured's employees drink alcohol on premises
- D. The insured sells alcohol at retail as a minor part of operations

Rationale: Standard CGL policies include a liquor liability exclusion for businesses in the business of selling, serving, or furnishing alcohol. A separate liquor liability policy or endorsement is required for bars, restaurants, and event venues.

130. The Texas Windstorm Insurance Association (TWIA) provides:

- A. Flood insurance for properties in FEMA flood zones
- B (correct). Windstorm and hail coverage of last resort in designated Gulf Coast catastrophe areas**
- C. All property insurance for high-risk properties statewide
- D. Auto insurance for high-risk drivers rejected by admitted carriers

Rationale: TWIA is the insurer of last resort for windstorm and hail coverage in designated catastrophe areas along the Texas Gulf Coast. Property owners in these areas who cannot obtain coverage from admitted carriers can apply to TWIA.

131. The "scheduled personal property" endorsement on a homeowners policy:

- A. Replaces the base homeowners policy for personal property
- B (correct). Provides broader coverage with higher limits for high-value items like jewelry and fine art**
- C. Covers business property kept in the home
- D. Automatically doubles the coverage limit for all personal property

Rationale: A scheduled personal property floater (personal articles floater) provides broader coverage for high-value items — jewelry, fine art, cameras, furs — with agreed value or higher limits and fewer exclusions than the base policy.

132. The "mortgagee clause" in a property policy protects the lender by:

- A. Transfers the insured's coverage entirely to the lender
- B. Requires the lender to pay the premium if the insured defaults
- C. Allows the lender to collect the claim payment directly without the insured's consent
- D (correct). Gives the lender independent coverage rights and requires notice of cancellation**

Rationale: The mortgagee clause (also called the standard mortgage clause) gives the lender independent coverage rights — the insurer must notify the mortgagee of cancellation and the mortgagee's interest is protected even if the insured's coverage is voided.

133. Under a PAP, the "duty to defend" means:

- A. The insured must defend themselves and seek reimbursement later
- B. The duty applies only after a judgment is entered against the insured
- C (correct). The insurer must defend the insured against covered claims even if the suit is groundless or fraudulent**
- D. Defense costs reduce the available liability limit

Rationale: The duty to defend requires the insurer to defend the insured against covered claims even if the suit is groundless, false, or fraudulent. Defense costs are paid in addition to (not within) the liability limit.

134. The "pollution exclusion" in a standard CGL policy:

- A. Does not apply to gradual pollution releases, only sudden events
- B. Can be waived by the insured for an additional premium
- C. Only applies to environmental cleanup costs, not bodily injury
- D (correct). Bars coverage for bodily injury or property damage arising from the release of pollutants**

Rationale: The absolute pollution exclusion bars coverage for bodily injury or property damage arising from the release, dispersal, or escape of pollutants. Some states have modified versions, but Texas follows the standard exclusion.

135. Which of the following BEST describes a "named peril" policy?

- A. Covers all perils including flood and earthquake
- B. Covers only losses caused by fire and lightning
- C (correct). Covers only perils specifically listed in the policy**
- D. Covers all perils except those specifically excluded

Rationale: A named peril policy only covers losses caused by perils specifically listed in the policy. If the cause of loss is not listed, it is not covered. This contrasts with open peril (special form) coverage.

136. Under a CGL policy, the "per occurrence" limit applies to:

- A. All damages paid during the entire policy period
- B. Only the first claim filed in the policy period
- C. All claims by a single claimant during the policy period
- D (correct). All damages arising from any one occurrence**

Rationale: The per occurrence limit is the most the insurer will pay for all damages arising from any one occurrence. The general aggregate limit is the most paid for all covered claims during the policy period (excluding products-completed operations).

137. Using the coinsurance formula, an insured carries \$60,000 of coverage on a building worth \$100,000 with an 80% coinsurance requirement. A \$20,000 loss occurs. How much will the insurer pay?

- A (correct). \$15,000**
- B. \$12,000
- C. \$20,000
- D. \$16,000

Rationale: Coinsurance formula: $(\text{Amount carried} / \text{Amount required}) \times \text{Loss} = (\$60,000 / \$80,000) \times \$20,000 = \$15,000$. The insured self-insures the remaining \$5,000.

138. Which of the following is true about a "unilateral" insurance contract?

- A (correct). Only the insurer makes a legally enforceable promise; the insured is not legally bound to pay premiums**
- B. The insured must perform a specific act before coverage attaches
- C. The insurer may change policy terms at any time without notice
- D. Both parties make legally enforceable promises

Rationale: A unilateral contract is one where only one party (the insurer) makes a legally enforceable promise. The insured is not legally obligated to pay premiums, but if they do, the insurer must perform.

139. Which of the following describes "reinsurance"?

- A. A policyholder self-insures a portion of their own risk
- B. Two insurers share premiums on a single policy equally
- C. An insured transfers risk to a government pool

D (correct). An insurer transfers a portion of its risk to another insurer to limit its exposure

Rationale: Reinsurance is an arrangement where an insurer (ceding company) transfers a portion of its risk to another insurer (reinsurer) to limit its exposure on large or catastrophic losses.

140. Under the Texas workers compensation system, a "subscribing" employer:

A. Can deny all work injury claims without review

B (correct). Receives statutory protections including the exclusive remedy doctrine

C. Must pay injured employees directly without insurer involvement

D. Is exempt from OSHA regulations

Rationale: A subscribing employer in Texas has purchased workers comp coverage and receives statutory protections, including the exclusive remedy doctrine, which generally bars employees from suing the employer in tort for work injuries.

141. The Texas Division of Workers' Compensation (DWC) is responsible for:

A. Providing workers comp insurance directly to employers

B (correct). Regulating the workers comp system, resolving disputes, and enforcing compliance

C. Setting premium rates for all workers comp carriers in Texas

D. Investigating workplace accidents on behalf of injured employees

Rationale: The DWC regulates the Texas workers compensation system, including resolving disputes between injured workers and insurance carriers, enforcing compliance, and setting medical fee guidelines.

142. A Texas insurance producer license must be renewed every:

A. 3 years

B. 4 years

C (correct). 2 years

D. 1 year

Rationale: Texas producer licenses are valid for 2 years and must be renewed biennially. Renewal requires 24 hours of continuing education, including at least 3 hours of ethics.

143. Which of the following would NOT be covered under a standard commercial property policy?

A (correct). Company-owned automobiles

B. Business furniture and equipment

C. Inventory and stock

D. Tenant improvements made by the insured

Rationale: Standard commercial property policies exclude vehicles, aircraft, watercraft, and land. Business personal property coverage covers movable business equipment at the described premises, not vehicles.

144. The difference between HO-2 and HO-3 homeowners forms is:

A. HO-2 covers renters; HO-3 covers homeowners

B (correct). HO-2 covers the dwelling on a named peril basis; HO-3 covers it on an open peril basis

C. HO-2 and HO-3 provide identical coverage with different premium structures

D. HO-3 excludes personal property; HO-2 includes it

Rationale: HO-2 (broad form) covers the dwelling on a named peril basis. HO-3 (special form) covers the dwelling on an open peril basis and personal property on a named peril basis. HO-3 is the most common homeowners form.

145. Under a homeowners policy, jewelry is subject to a special limit of liability typically set at:

- A. \$5,000
- B. \$10,000
- C. \$2,500
- D (correct). \$1,500**

Rationale: Most homeowners policies limit theft coverage for jewelry to \$1,500 (some forms \$2,500). Insureds with valuable jewelry need a scheduled personal property endorsement or floater for full coverage.

146. A Texas P&C producer license requires completion of how many pre-licensing education hours?

- A. 20 hours
- B. 60 hours
- C. No pre-licensing hours required
- D (correct). 40 hours**

Rationale: Texas requires 40 hours of state-approved pre-licensing education before sitting for the P&C exam. This cannot be waived even if the applicant holds designations or out-of-state licenses.

147. An "additional insured" endorsement on a CGL policy:

- A. Reduces the premium for the named insured
- B. Gives the additional insured the right to modify the policy
- C. Transfers all liability from the named insured to the additional insured
- D (correct). Extends the named insured's CGL coverage to a third party for liability from the named insured's operations**

Rationale: An additional insured endorsement extends the named insured's CGL coverage to a third party — typically a building owner or general contractor — for liability arising from the named insured's operations.

148. Under a PAP, "Part D — Physical Damage" includes which two coverages?

- A (correct). Collision and other than collision (comprehensive)**
- B. Towing and rental reimbursement
- C. Liability and medical payments
- D. Uninsured motorist and underinsured motorist

Rationale: Part D covers collision (damage from impact) and other than collision/comprehensive (fire, theft, windstorm, hail, vandalism, flood, animal collision). Both are subject to separate deductibles.

149. Which of the following would be covered under an "electronic data processing" (EDP) floater?

- A. Employee use of company computers for personal purposes
- B. Only hardware physically damaged by fire or theft
- C (correct). Computers, hardware, software, and data against a broad range of perils including electrical disturbance**
- D. Liability for data breaches and cyber attacks

Rationale: An EDP floater covers computers, hardware, software, and data against a broad range of perils including electrical disturbance and mechanical breakdown, which are excluded from standard property policies.

150. A "cyber liability" policy is designed to cover:

- A. Liability for defamatory statements posted online by employees
- B (correct). Data breaches, ransomware, network intrusions, notification costs, and third-party claims**
- C. Physical damage to computer hardware from fire or theft
- D. Errors made by software vendors in program code

Rationale: Cyber liability covers losses from data breaches, ransomware, network intrusions, and resulting notification costs, regulatory fines, and third-party claims. Standard CGL policies exclude electronic data losses.

