Insurance Test Practice

Alabama Property & Casualty Insurance Practice Test

Free Property & Casualty Insurance Practice Questions with Answers

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- Real auto, homeowners, and CGL exam format
- Updated for 2026 Property & Casualty regulations
- Print-ready professional design

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1. **Which of the following best describes indemnification in Alabama Property & Casualty insurance?**
   - ✓ A) Option A
   - B) Option B
   - C) Option C
   - D) Option D

   Explanation: c: To punish negligent third parties

2. **In Alabama, Actual Cash Value (ACV) is traditionally calculated as:**
   - ✓ A) Option A
   - B) Option B
   - C) Option C
   - D) Option D

   Explanation: c: Original purchase price minus deductible

3. **A commercial building valued at $400,000 has an 80% coinsurance clause. The owner carries $240,000 of insurance. If a $40,000 fire loss occurs, how much will the policy pay (ignoring deductible)?**
   - ✓ A) Option A
   - B) Option B
   - C) Option C
   - D) Option D

   Explanation: b: $40

4. **Under an HO-3 (Special Form) policy in Alabama, Coverage A (Dwelling) and Coverage C (Personal Property) are covered on which basis?**
   - ✓ A) Option A
   - B) Option B
   - C) Option C
   - D) Option D

   Explanation: c: Coverage A is open perils; Coverage C is named perils

5. **Under a standard Homeowners policy in Alabama, Coverage B (Other Structures) is typically set at what percentage of Coverage A?**
   - ✓ A) Option A
   - B) Option B
   - C) Option C
   - D) Option D

   Explanation: c: 20%

6. **What are the compulsory statutory minimum auto liability limits required by Alabama law?**

✓ A) Option A
B) Option B
C) Option C
D) Option D

Explanation: c: 50/100/25

7. **Under a Personal Auto Policy (PAP), Part D covers:**

✓ A) Option A
B) Option B
C) Option C
D) Option D

Explanation: c: Uninsured Motorists

8. **Which Commercial General Liability (CGL) coverage form triggers coverage based on when the injury or damage actually occurs during the policy period, regardless of when the claim is filed?**

✓ A) Option A
B) Option B
C) Option C
D) Option D

Explanation: c: Retroactive form

9. **In Alabama, Workers' Compensation benefits are provided on what legal basis?**

✓ A) Option A
B) Option B
C) Option C
D) Option D

Explanation: c: Contributory negligence

10. **Which entity serves as the residual market property insurance pool in Alabama for individuals unable to obtain coverage in the voluntary market?**

✓ A) Option A
B) Option B
C) Option C
D) Option D

Explanation: c: National Flood Insurance Program

11. If an admitted Property & Casualty insurer in Alabama becomes insolvent, covered claims are paid up to statutory limits by the:

- ✓ A) Option A
- B) Option B
- C) Option C
- D) Option D

Explanation: c: Federal Reserve

12. Under an HO-3 (Special Form) policy in Alabama, which of the following perils is covered for personal property (Coverage C)?

- ✓ A) Named perils specifically listed in the policy such as fire, theft, and windstorm
- B) All risks/open perils except those specifically excluded
- C) Flood and earth movement automatically
- D) Wear and tear, rust, and smog

Explanation: HO-3 provides open-perils coverage on Coverage A (Dwelling) and Coverage B (Other Structures), but named-perils coverage on Coverage C (Personal Property).

13. If a commercial building in Alabama valued at $300,000 has an 80% coinsurance clause and is insured for $180,000, how much will the policy pay for a $60,000 loss (ignoring deductible)?

- ✓ A) $45,000
- B) $60,000
- C) $36,000
- D) $48,000

Explanation: Required insurance = 80% of $300,000 = $240,000. Carried / Required = $180,000 / $240,000 = 75%. Payment = 75% of $60,000 = $45,000.

14. In Alabama property insurance, actual cash value (ACV) is defined as:

- ✓ A) Replacement cost minus physical depreciation
- B) Original purchase price minus inflation
- C) Market value at the time of purchase
- D) Full cost to rebuild without depreciation

Explanation: Actual Cash Value (ACV) equals current replacement cost minus physical depreciation at the time of loss.

15. Under a Personal Auto Policy (PAP), Part A - Liability limits of 25/50/25 mean:

- ✓ A) $25,000 bodily injury per person, $50,000 total bodily injury per accident, $25,000 property damage per accident
- B) $25,000 total liability, $50,000 collision, $25,000 comprehensive
- C) $25,000 property damage, $50,000 medical payments, $25,000 uninsured motorist
- D) $25,000 deductible, $50,000 policy limit, $25,000 annual premium

Explanation: Split limits BI/BI/PD stand for maximum Bodily Injury per person / maximum total BI per accident / maximum Property Damage per accident.

16. In Commercial General Liability (CGL) insurance, a Claims-Made policy form triggers coverage based on:

- ✓ A) When the claim is first made against the insured during the policy period (or extended reporting period)
- B) When the injury or loss actually occurred regardless of when reported
- C) When the premium is paid
- D) When the insurer issues the policy renewal

Explanation: A Claims-Made CGL policy covers claims first reported during the policy period or applicable tail coverage, provided the occurrence happened on or after the policy retroactive date.

17. Under Alabama Workers' Compensation law, statutory benefits paid to injured workers operate under the doctrine of:

- ✓ A) Exclusive remedy
- B) Comparative negligence
- C) Contributory fault
- D) Strict subrogation

Explanation: Workers Compensation operates under the exclusive remedy doctrine — statutory no-fault benefits are provided in exchange for surrendering common law lawsuits against the employer.

18. Which dwelling policy form (DP) provides open-perils coverage on the dwelling structure?

- ✓ A) DP-3 (Special Form)
- B) DP-1 (Basic Form)
- C) DP-2 (Broad Form)
- D) DP-4 (Tenant Form)

Explanation: DP-3 is the Special Form dwelling policy providing open perils for dwelling and other structures.

19. Under Alabama insurance regulations, the FAIR Plan (Fair Access to Insurance Requirements) is designed to:

- ✓ A) Provide basic property insurance to property owners unable to obtain coverage in the voluntary market
- B) Provide free property insurance to low-income homeowners
- C) Regulate real estate property prices
- D) Guarantee zero deductibles for high-risk properties

Explanation: FAIR Plans are state-supervised risk pools ensuring availability of basic property insurance for properties unable to secure private insurance.

20. Which of the following is considered an insurable hazard?

- ✓ A) A faulty electrical wire inside a house
- B) A fire that destroys a garage
- C) A car crash on a highway
- D) A lightning strike on a roof

Explanation: A hazard is a condition or situation that increases the probability or severity of a loss. Faulty wiring is a physical hazard; fire and lightning are perils.

21. A Businessowners Policy (BOP) is specifically designed for:

- ✔ A) Small to medium-sized, low-risk businesses needing bundled property and liability protection
- B) Large multinational corporations with complex risk profiles
- C) High-risk manufacturing plants and chemical refineries
- D) Solely personal auto fleets

Explanation: BOP policies package property, liability, and business income coverage into a standardized, cost-effective policy for small to mid-sized low-risk businesses.

22. Under an HO-3 (Special Form) policy in Alabama, which of the following perils is covered for personal property (Coverage C)?

- ✔ A) Named perils specifically listed in the policy such as fire, theft, and windstorm
- B) All risks/open perils except those specifically excluded
- C) Flood and earth movement automatically
- D) Wear and tear, rust, and smog

Explanation: HO-3 provides open-perils coverage on Coverage A (Dwelling) and Coverage B (Other Structures), but named-perils coverage on Coverage C (Personal Property).

23. If a commercial building in Alabama valued at $300,000 has an 80% coinsurance clause and is insured for $180,000, how much will the policy pay for a $60,000 loss (ignoring deductible)?

- ✔ A) $45,000
- B) $60,000
- C) $36,000
- D) $48,000

Explanation: Required insurance = 80% of $300,000 = $240,000. Carried / Required = $180,000 / $240,000 = 75%. Payment = 75% of $60,000 = $45,000.

24. In Alabama property insurance, actual cash value (ACV) is defined as:

- ✔ A) Replacement cost minus physical depreciation
- B) Original purchase price minus inflation
- C) Market value at the time of purchase
- D) Full cost to rebuild without depreciation

Explanation: Actual Cash Value (ACV) equals current replacement cost minus physical depreciation at the time of loss.

25. Under a Personal Auto Policy (PAP), Part A - Liability limits of 25/50/25 mean:

- ✔ A) $25,000 bodily injury per person, $50,000 total bodily injury per accident, $25,000 property damage per accident
- B) $25,000 total liability, $50,000 collision, $25,000 comprehensive
- C) $25,000 property damage, $50,000 medical payments, $25,000 uninsured motorist
- D) $25,000 deductible, $50,000 policy limit, $25,000 annual premium

Explanation: Split limits BI/BI/PD stand for maximum Bodily Injury per person / maximum total BI per accident / maximum Property Damage per accident.

26. In Commercial General Liability (CGL) insurance, a Claims-Made policy form triggers coverage based on:

- ✓ A) When the claim is first made against the insured during the policy period (or extended reporting period)
- B) When the injury or loss actually occurred regardless of when reported
- C) When the premium is paid
- D) When the insurer issues the policy renewal

Explanation: A Claims-Made CGL policy covers claims first reported during the policy period or applicable tail coverage, provided the occurrence happened on or after the policy retroactive date.

27. Under Alabama Workers' Compensation law, statutory benefits paid to injured workers operate under the doctrine of:

- ✓ A) Exclusive remedy
- B) Comparative negligence
- C) Contributory fault
- D) Strict subrogation

Explanation: Workers Compensation operates under the exclusive remedy doctrine — statutory no-fault benefits are provided in exchange for surrendering common law lawsuits against the employer.

28. Which dwelling policy form (DP) provides open-perils coverage on the dwelling structure?

- ✓ A) DP-3 (Special Form)
- B) DP-1 (Basic Form)
- C) DP-2 (Broad Form)
- D) DP-4 (Tenant Form)

Explanation: DP-3 is the Special Form dwelling policy providing open perils for dwelling and other structures.

29. Under Alabama insurance regulations, the FAIR Plan (Fair Access to Insurance Requirements) is designed to:

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- B) Provide free property insurance to low-income homeowners
- C) Regulate real estate property prices
- D) Guarantee zero deductibles for high-risk properties

Explanation: FAIR Plans are state-supervised risk pools ensuring availability of basic property insurance for properties unable to secure private insurance.

30. Which of the following is considered an insurable hazard?

- ✓ A) A faulty electrical wire inside a house
- B) A fire that destroys a garage
- C) A car crash on a highway
- D) A lightning strike on a roof

Explanation: A hazard is a condition or situation that increases the probability or severity of a loss. Faulty wiring is a physical hazard; fire and lightning are perils.

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- C) Flood and earth movement automatically
- D) Wear and tear, rust, and smog

Explanation: HO-3 provides open-perils coverage on Coverage A (Dwelling) and Coverage B (Other Structures), but named-perils coverage on Coverage C (Personal Property).

33. If a commercial building in Alabama valued at $300,000 has an 80% coinsurance clause and is insured for $180,000, how much will the policy pay for a $60,000 loss (ignoring deductible)?

- ✔ A) $45,000
- B) $60,000
- C) $36,000
- D) $48,000

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- C) Market value at the time of purchase
- D) Full cost to rebuild without depreciation

Explanation: Actual Cash Value (ACV) equals current replacement cost minus physical depreciation at the time of loss.

35. Under a Personal Auto Policy (PAP), Part A - Liability limits of 25/50/25 mean:

- ✔ A) $25,000 bodily injury per person, $50,000 total bodily injury per accident, $25,000 property damage per accident
- B) $25,000 total liability, $50,000 collision, $25,000 comprehensive
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- D) Full cost to rebuild without depreciation

Explanation: Actual Cash Value (ACV) equals current replacement cost minus physical depreciation at the time of loss.

45. Under a Personal Auto Policy (PAP), Part A - Liability limits of 25/50/25 mean:

- ✔ A) $25,000 bodily injury per person, $50,000 total bodily injury per accident, $25,000 property damage per accident
- B) $25,000 total liability, $50,000 collision, $25,000 comprehensive
- C) $25,000 property damage, $50,000 medical payments, $25,000 uninsured motorist
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46. In Commercial General Liability (CGL) insurance, a Claims-Made policy form triggers coverage based on:

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- B) When the injury or loss actually occurred regardless of when reported
- C) When the premium is paid
- D) When the insurer issues the policy renewal

Explanation: A Claims-Made CGL policy covers claims first reported during the policy period or applicable tail coverage, provided the occurrence happened on or after the policy retroactive date.

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- ✔ A) Exclusive remedy
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- C) Contributory fault
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Explanation: Workers Compensation operates under the exclusive remedy doctrine — statutory no-fault benefits are provided in exchange for surrendering common law lawsuits against the employer.

48. Which dwelling policy form (DP) provides open-perils coverage on the dwelling structure?

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50. Which of the following is considered an insurable hazard?

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- B) A fire that destroys a garage
- C) A car crash on a highway
- D) A lightning strike on a roof

Explanation: A hazard is a condition or situation that increases the probability or severity of a loss. Faulty wiring is a physical hazard; fire and lightning are perils.