Insurance Test Practice

California Property & Casualty Insurance Practice Test

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1. Perils

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

Explanation: a: A physical hazard

2. Perils

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

Explanation: a: Investing in the stock market

3. Perils

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

Explanation: a: Physical hazard

4. Perils

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

Explanation: a: A peril

5. Perils

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

Explanation: a: Hazard

6. Perils

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

Explanation: a: Buying a comprehensive homeowners policy

7. Perils

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

Explanation: a: The exact individuals who will suffer a loss

8. Perils

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

Explanation: a: Insurers charge premiums that are too high.

9. Perils

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

Explanation: a: The loss must be definite and measurable.

10. Perils

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

Explanation: a: Risk reduction

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11. Perils

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

Explanation: a: Risk avoidance

12. When Mark submits a completed auto insurance application along with his first premium payment, what essential element of a contract has he fulfilled?

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

Explanation: c: Consideration

13. An insurance contract is prepared by the insurer with no room for negotiation by the insured. If there is an ambiguity in the policy wording, a court will likely interpret it in favor of the insured. This characteristic describes an:

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

Explanation: c: Unilateral contract

14. Samantha pays a $500 annual premium for her homeowners policy. During the year, her house burns down, and the insurer pays $250,000. This unequal exchange of value is characteristic of what type of contract?

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

Explanation: c: Aleatory contract

15. Which element of a legal contract requires that all parties be of legal age, mentally competent, and not under the influence of drugs or alcohol?

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

Explanation: c: Agreement

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16. After a loss, the insured is required to pay premiums and notify the insurer of the loss in order for the insurer to pay the claim. Because only one party (the insurer) makes a legally enforceable promise, the insurance contract is:

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

Explanation: c: Unilateral

17. **An insured intentionally conceals the fact that he runs a home business out of his garage when applying for a standard homeowners policy. This failure to disclose a material fact is known as:**

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

Explanation: c: Concealment

18. **Which of the following describes a statement that is guaranteed to be absolutely true?**

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

Explanation: c: A concealment

19. **If an agent tells a client that a specific peril is covered, even though the policy excludes it, the insurance company may be prevented from denying the claim based on the concept of:**

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

Explanation: c: Estoppel

20. **Because both parties must perform certain duties to keep an insurance contract in force, it is considered what type of contract?**

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

Explanation: c: Aleatory

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21. **A false statement on an application that would influence the insurer's decision to issue the policy is known as a:**

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

Explanation: c: Minor discrepancy

22. **The principle of indemnity states that the insured should:**
   - ✓ A) Option A
   - B) Option B
   - C) Option C
   - D) Option D

   Explanation: c: Receive the full face value of the policy regardless of the actual loss amount

23. **David sells his house to Mary on May 1st, but forgets to cancel his homeowners insurance. On May 15th, the house burns down. Why won't David's insurance pay him for the loss?**
   - ✓ A) Option A
   - B) Option B
   - C) Option C
   - D) Option D

   Explanation: c: Because David no longer has an insurable interest in the property at the time of loss

24. **Which of the following is NOT an example of someone with an insurable interest in a property?**
   - ✓ A) Option A
   - B) Option B
   - C) Option C
   - D) Option D

   Explanation: c: The legal owner of the property

25. **An insurer pays a $10,000 claim to an insured after their car is rear-ended by a negligent driver. The insurer then demands reimbursement from the negligent driver. What right is the insurer exercising?**
   - ✓ A) Option A
   - B) Option B
   - C) Option C
   - D) Option D

   Explanation: c: Subrogation

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26. **What is the primary purpose of the subrogation clause in a property insurance policy?**
   - ✓ A) Option A
   - B) Option B
   - C) Option C
   - D) Option D

   Explanation: c: To waive the insured's deductible

27. Which of the following scenarios best demonstrates insurable interest?

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

Explanation: c: A tenant buys a policy covering the landlord's structure.

28. A mortgage company requires a borrower to carry homeowners insurance. Why does the mortgage company have an insurable interest?

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

Explanation: c: Because they manage the property taxes.

29. In Property & Casualty insurance, when must an insurable interest exist for a claim to be valid?

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

Explanation: c: Only at the time of loss

30. The concept that an insured should not be able to buy an insurance policy and intentionally cause a loss for profit is supported by the requirement of:

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

Explanation: c: Absolute liability

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31. If a $10,000 piece of equipment is stolen and the insurer issues a check for $10,000 to replace it, this perfectly illustrates:

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

Explanation: c: Indemnity

32. **Hannah's home suffers a total loss. The replacement cost is $195,000, and the estimated depreciation is $47,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?**

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

Explanation: b: $195

33. **Bob's home suffers a total loss. The replacement cost is $134,000, and the estimated depreciation is $35,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?**

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

Explanation: b: $134

34. **Diana's home suffers a total loss. The replacement cost is $338,000, and the estimated depreciation is $48,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?**

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

Explanation: b: $338

35. **Hannah's warehouse suffers a total loss. The replacement cost is $379,000, and the estimated depreciation is $38,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?**

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

Explanation: b: $379

36. Bob's home suffers a total loss. The replacement cost is $299,000, and the estimated depreciation is $11,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?

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

Explanation: b: $299

37. Bob's home suffers a total loss. The replacement cost is $220,000, and the estimated depreciation is $16,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?

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

Explanation: b: $220

38. Diana's commercial building suffers a total loss. The replacement cost is $226,000, and the estimated depreciation is $32,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?

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

Explanation: b: $226

39. Ian's retail store suffers a total loss. The replacement cost is $376,000, and the estimated depreciation is $18,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?

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

Explanation: b: $376

40. Alice's warehouse suffers a total loss. The replacement cost is $236,000, and the estimated depreciation is $35,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?

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

Explanation: b: $236

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41. Julia's retail store suffers a total loss. The replacement cost is $381,000, and the estimated depreciation is $35,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?

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

Explanation: b: $381

42. Hannah's warehouse suffers a total loss. The replacement cost is $329,000, and the estimated depreciation is $23,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?

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

Explanation: b: $329

43. Ian's commercial building suffers a total loss. The replacement cost is $303,000, and the estimated depreciation is $13,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?

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

Explanation: b: $303

44. **Alice's commercial building suffers a total loss. The replacement cost is $281,000, and the estimated depreciation is $32,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?**

- ✔ A) Option A
- B) Option B
- C) Option C
- D) Option D

Explanation: b: $281

45. **Bob's warehouse suffers a total loss. The replacement cost is $217,000, and the estimated depreciation is $13,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?**

- ✔ A) Option A
- B) Option B
- C) Option C
- D) Option D

Explanation: b: $217

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46. **Bob's warehouse suffers a total loss. The replacement cost is $385,000, and the estimated depreciation is $31,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?**

- ✔ A) Option A
- B) Option B
- C) Option C
- D) Option D

Explanation: b: $385

47. **Fiona's warehouse suffers a total loss. The replacement cost is $485,000, and the estimated depreciation is $33,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?**

- ✔ A) Option A
- B) Option B
- C) Option C
- D) Option D

Explanation: b: $485

48. Charlie's warehouse suffers a total loss. The replacement cost is $487,000, and the estimated depreciation is $28,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?

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

Explanation: b: $487

49. Evan's rental property suffers a total loss. The replacement cost is $491,000, and the estimated depreciation is $38,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?

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

Explanation: b: $491

50. Charlie's retail store suffers a total loss. The replacement cost is $355,000, and the estimated depreciation is $37,000. If the policy is written on an Actual Cash Value (ACV) basis, how much will the policy pay (ignoring deductibles)?

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

Explanation: b: $355