



Property Casualty

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1. For a property insurance policy to be valid, the insured generally must have an insurable interest in the covered property at what point?

- A. Only when the policy is first applied for
- B. At the time of the loss
- C. Only at policy renewal
- D. Insurable interest is never required for property

2. To establish negligence, a plaintiff must generally prove duty, breach, causation, and:

- A. Intent
- B. Fraud
- C. Damages
- D. Strict liability

3. Which of the following is NOT one of the coverage parts of the standard Personal Auto Policy?

- A. Liability coverage
- B. Medical payments coverage
- C. Workers compensation coverage
- D. Uninsured motorists coverage

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4. Which homeowners form is specifically designed for the owners of a condominium unit?

- A. HO-2
- B. HO-3
- C. HO-6
- D. HO-8



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5. A Businessowners Policy (BOP) is designed to:

- A. Cover only commercial auto exposures
- B. Provide workers compensation only
- C. Combine property and liability coverages for small to mid-size businesses
- D. Insure only large manufacturers

6. The declarations page of an insurance policy contains:

- A. The list of exclusions
- B. The insuring agreement language
- C. The named insured, address, limits, premium, and policy period
- D. Definitions of key terms

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7. In insurance, 'risk' is most precisely defined as:

- A. A guaranteed loss
- B. A peril
- C. The uncertainty of loss
- D. A type of coverage

8. Under the McCarran-Ferguson Act, the regulation of the business of insurance is primarily delegated to:

- A. The federal government exclusively
- B. The courts
- C. The individual states
- D. Insurance companies themselves

9. In insurance terminology, the actual cause of a loss, such as fire or windstorm, is called a:

- A. Peril
- B. Hazard
- C. Exposure
- D. Rider

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10. In a liability policy, 'bodily injury' typically refers to:

- A. Physical injury, sickness, or disease to a person
- B. Damage to tangible property
- C. Loss of business reputation
- D. Financial loss without physical harm

11. Part A (Liability) of the Personal Auto Policy pays for:

- A. Bodily injury and property damage the insured is legally liable for
- B. Damage to the insured's own car from a collision
- C. Medical bills of the insured only
- D. Theft of the insured vehicle

12. Under the popular HO-3 (special form), the dwelling and other structures are insured on a(n):

- A. Open perils basis
- B. Named perils basis
- C. Actual cash value only basis
- D. Liability-only basis

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13. A Commercial Package Policy (CPP) is created by combining two or more coverage parts under:

- A. A common policy declarations and conditions
- B. Separate unrelated contracts
- C. A personal lines jacket
- D. A single occurrence limit only

14. The insuring agreement of a policy:

- A. States the insurer's core promise of coverage
- B. Lists only the premium
- C. Identifies only the agent
- D. Contains the cancellation address



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15. Which of the following is an example of pure risk, the kind insurance handles?

- A. The chance a house may burn down
- B. Investing in the stock market
- C. Opening a new business
- D. Gambling at a casino

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16. The state official responsible for enforcing insurance laws and regulating insurers and producers is the:

- A. Insurance commissioner (or director/superintendent)
- B. Attorney general
- C. Secretary of state
- D. Treasurer

17. Oily rags stored next to a furnace, which increase the likelihood of a fire, are an example of which type of hazard?

- A. Moral hazard
- B. Morale hazard
- C. Physical hazard
- D. Legal hazard

18. 'Property damage' under a standard liability policy includes physical injury to tangible property and:

- A. Bodily injury to bystanders
- B. Loss of use of tangible property
- C. Personal injury such as libel
- D. Pure economic loss with no property involved

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19. An auto liability limit shown as 100/300/50 means a maximum of:

- A. \$100 per person and \$300 per accident
- B. \$100,000 total for all claims
- C. \$100,000 per person, \$300,000 per accident for bodily injury, \$50,000 property damage
- D. \$300,000 for property damage



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20. Under the HO-3, personal property (Coverage C) is typically insured against:

- A. All risks of direct loss
- B. Named perils only
- C. Liability claims
- D. Flood and earthquake

21. Under the Commercial Property Building and Personal Property Coverage Form, business personal property typically includes:

- A. The building structure itself
- B. Furniture, fixtures, machinery, and stock owned by the insured
- C. The insured's commercial vehicles
- D. Money and securities

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22. Exclusions are included in insurance policies primarily to:

- A. Confuse the policyholder
- B. Eliminate coverage for uninsurable or specially insured risks and define coverage scope
- C. Increase the premium only
- D. Replace the declarations

23. The law of large numbers states that as the number of similar exposure units increases, the:

- A. Premium always decreases
- B. Actual loss experience becomes more predictable
- C. Risk disappears entirely
- D. Insurer's profit is guaranteed

24. Before soliciting or selling property and casualty insurance to the public, a producer must generally:

- A. Be at least 30 years old
- B. Hold a valid license issued by the state
- C. Own an insurance company
- D. Pass a federal exam

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25. An insured who leaves a house unlocked and the keys in the car because 'insurance will cover it' is displaying which type of hazard?

- A. Physical hazard
- B. Morale hazard
- C. Moral hazard
- D. Speculative hazard

26. An occurrence-based liability policy responds to claims based on:

- A. When the claim is reported to the insurer
- B. When the lawsuit is filed
- C. When the injury or damage takes place
- D. When the policy is purchased

27. With 50/100/25 limits, an at-fault insured injures three people with bodily injury claims of \$60,000, \$40,000, and \$30,000. How much does the insurer pay for bodily injury?

- A. \$130,000
- B. \$120,000
- C. \$100,000
- D. \$50,000

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28. Coverage A of a homeowners policy applies to:

- A. The dwelling
- B. Detached structures like a fence
- C. Personal property
- D. Additional living expenses

29. The three standard Commercial Property causes of loss forms are basic, broad, and:

- A. Named
- B. Open
- C. Special
- D. Comprehensive



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30. The conditions section of a policy:

- A. Lists the covered perils
- B. States the premium
- C. Sets out the rights and duties of the parties, such as notice and proof of loss
- D. Names the agent



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Answer Key & Explanations

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1. B — At the time of the loss

Property insurance is a contract of indemnity, so the insured must have an insurable interest (a financial stake) in the property at the time of loss in order to collect, unlike life insurance where interest need only exist at inception.

2. C — Damages

Negligence requires a legal duty, a breach of that duty, proximate causation linking the breach to the harm, and actual damages. Intent is required for intentional torts, not negligence.

3. C — Workers compensation coverage

The PAP contains Liability (Part A), Medical Payments (Part B), Uninsured Motorists (Part C), and Coverage for Damage to Your Auto (Part D). Workers compensation is a separate line of insurance.

4. C — HO-6

HO-6 is the unit-owners form for condominium owners, covering personal property and improvements while the condo association master policy covers the building structure.

5. C — Combine property and liability coverages for small to mid-size businesses

A BOP packages commercial property and general liability into a single policy tailored for eligible small and mid-size businesses, simplifying coverage and often lowering cost.

6. C — The named insured, address, limits, premium, and policy period

The declarations page summarizes the specifics of the contract: who is insured, the property or risk, coverage limits, deductibles, premium, and policy period. It personalizes the standard policy forms.

7. C — The uncertainty of loss

Risk is the uncertainty regarding loss. Insurance addresses pure risk, where only loss or no loss is possible, rather than speculative risk, which includes the chance of gain.

8. C — The individual states

The McCarran-Ferguson Act of 1945 affirms that states have primary authority to regulate the business of insurance, and that federal law generally does not preempt state insurance regulation.

9. A — Peril

A peril is the immediate cause of loss (fire, theft, hail). A hazard is a condition that increases the chance or severity of a peril, so the two terms are distinct.

10. A — Physical injury, sickness, or disease to a person

Bodily injury means physical harm to a person, including sickness, disease, and resulting death. Damage to property is addressed separately as property damage liability.

11. A — Bodily injury and property damage the insured is legally liable for

Part A covers the insured's legal liability to others for bodily injury and property damage arising from the use of



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a covered auto, and includes the insurer's duty to defend.

12. A — Open perils basis

HO-3 covers the dwelling (Coverage A) and other structures (Coverage B) on an open perils basis, while personal property (Coverage C) is covered on a named perils basis.

13. A — A common policy declarations and conditions

A CPP combines two or more commercial coverage parts (such as property, general liability, crime, and auto) under common declarations and conditions, allowing flexible, modular coverage.

14. A — States the insurer's core promise of coverage

The insuring agreement is the heart of the contract, stating what the insurer promises to do (pay covered losses) in exchange for the premium, broadly outlining the coverage provided.

15. A — The chance a house may burn down

Pure risk involves only the possibility of loss or no loss, such as a house fire, and is insurable. Speculative risk, which includes a chance of gain (investing, gambling), is not insurable.

16. A — Insurance commissioner (or director/superintendent)

Each state has an insurance commissioner, director, or superintendent who heads the department of insurance, enforces the insurance code, licenses producers, and oversees insurer solvency and conduct.

17. C — Physical hazard

A physical hazard is a tangible condition of the property or surroundings that increases the chance of loss. Moral and morale hazards relate to a person's dishonesty or carelessness, not physical conditions.

18. B — Loss of use of tangible property

Property damage means physical injury to tangible property, including resulting loss of use, as well as loss of use of property that is not physically injured.

19. C — \$100,000 per person, \$300,000 per accident for bodily injury, \$50,000 property damage

Split limits express per-person bodily injury (\$100,000), per-accident bodily injury (\$300,000), and per-accident property damage (\$50,000) maximums respectively.

20. B — Named perils only

While the HO-3 covers the structure on an open perils basis, personal property is covered only against the named perils listed in the policy, such as fire, theft, and windstorm.

21. B — Furniture, fixtures, machinery, and stock owned by the insured

Business personal property covers the insured's contents such as furniture, fixtures, equipment, machinery, and stock. The building is covered separately, and money/securities need crime coverage.

22. B — Eliminate coverage for uninsurable or specially insured risks and define coverage scope

Exclusions remove coverage for risks that are uninsurable, better covered elsewhere, catastrophic, or that would duplicate other coverage, helping keep the premium affordable and the coverage clear.

23. B — Actual loss experience becomes more predictable

The law of large numbers holds that predicting losses becomes more accurate as the pool of similar exposures grows, allowing insurers to set rates that reflect expected losses with greater confidence.



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24. B — Hold a valid license issued by the state

A producer must obtain a license from the state insurance department, typically by meeting eligibility requirements and passing a licensing examination, before transacting insurance with the public.

25. B — Morale hazard

Morale hazard is carelessness or indifference to loss because the insured has coverage. Moral hazard, by contrast, involves deliberate dishonesty such as arson or fraud.

26. C — When the injury or damage takes place

An occurrence policy covers injury or damage that happens during the policy period regardless of when the claim is reported. A claims-made policy responds based on when the claim is first made.

27. C — \$100,000

Limits are 50/100/25. Each person is capped at \$50,000, so the \$60,000 claim is reduced to \$50,000 while the \$40,000 and \$30,000 claims are paid in full. That sums to \$120,000, but the \$100,000 per-accident bodily injury cap applies, so the insurer pays a total of \$100,000.

28. A — The dwelling

Coverage A insures the dwelling, including structures attached to it. Detached structures fall under Coverage B, personal property under Coverage C, and loss of use under Coverage D.

29. C — Special

Commercial property offers basic (limited named perils), broad (more named perils), and special (open perils, all-risk subject to exclusions) causes of loss forms, with special being the broadest.

30. C — Sets out the rights and duties of the parties, such as notice and proof of loss

Policy conditions spell out the obligations of both parties, including duties after a loss, cancellation procedures, subrogation, and other rules governing how the contract operates.



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