1. General Insurance — (Max Scores = 22)
2. Property and Casualty Insurance — (Max Scores = 22)
3. Personal Lines Insurance — (Max Scores = 53)
4. Commercial Insurance Coverages — (Max Scores = 51)
5. Pet Insurance — (Max Scores = 2)

killexams.com

P-and-C

Property-and-Casualty

Property and Casualty Insurance (General)

Question: 1015

A California surplus lines placement involves a commercial package for earthquake coverage unavailable admitted. The broker complies with diligent search. Which tax and fee combination applies?

A. 1.5% tax only for exempt purchasers
B. 3% premium tax to CDI and 0.18% stamping fee to SLA
C. No tax if alien insurer used
D. Filing fee waived for large commercial risks

Answer: B
Explanation: California imposes a 3% surplus lines premium tax payable to the state and a stamping fee (currently 0.18%) to the Surplus Line Association for all non-admitted placements.

Question: 1016

Which of the following is a "Supplementary Payment" in a CGL policy that does not reduce the limit of insurance?

A. All medical expenses for a guest injured on the premises.
B. Cost of bail bonds required because of accidents or traffic law violations arising out of the use of a covered vehicle.
C. Punitive damages awarded by a court in a product liability suit.
D. Damage to the property of others in the care, custody, or control of the insured.

Answer: B
Explanation: Supplementary Payments in the CGL policy include specific costs such as the cost of bail bonds (up to $250), all expenses the insurer incurs, and pre-judgment and post-judgment interest; these payments are in addition to the limits of insurance.

Question: 1017

An insurer issues a property policy after receiving a signed application and premium payment from an applicant who is mentally competent and of legal age. The policy covers lawful property and activities. These facts indicate that which basic elements of a valid contract are present?

A. Direct loss, indirect loss, hazard, and peril
B. Offer and acceptance, consideration, competent parties, and legal purpose

C. Adhesion, unilateral obligation, aleatory exchange, and utmost good faith
D. Representation, warranty, concealment, and waiver

Answer: B
Explanation: The facts show offer and acceptance, consideration, competent parties, and legal purpose, which together form the essential elements required to create a valid and enforceable insurance contract.

Question: 1018

During a severe storm, lightning strikes a warehouse, igniting stored flammable materials that cause an explosion and subsequent flooding from ruptured pipes. The insured seeks coverage for all resulting damage. Which concept determines that the insurer must cover the entire chain of events?

A. Proximate cause
B. Indemnity
C. Direct loss
D. Moral hazard

Answer: A
Explanation: Proximate cause determines that the insurer must cover the entire chain of events, as lightning was the immediate, unbroken cause that set in motion the subsequent explosion and flooding without any intervening independent cause.

Question: 1019

A mixed-breed dog with Dachshund heritage develops intervertebral disc disease (IVDD) at age 5. The policy excludes "breed-specific issues including IVDD in at-risk breeds such as Dachshunds." The owner argues mixed breed status exempts it. Does the exclusion apply?

A. No, unless DNA testing confirms predominant breed
B. Yes, if the condition is hereditary/congenital regardless of documented purebred status
C. No, because exclusions apply only to purebred dogs
D. Yes, for any pet showing breed-typical presentation

Answer: B
Explanation: Yes, if the condition is hereditary/congenital regardless of documented purebred status. Hereditary condition exclusions apply based on the nature of the disorder, not strictly purebred registration, when the condition manifests in a predisposed breed mix.

Question: 1020

Which component of an insurance policy identifies the named insured, the policy period, the limits of liability, and the premium amount?

A. Conditions
B. Exclusions
C. Insuring Agreement
D. Declarations

Answer: D
Explanation: The Declarations page is the section of the policy that provides the specific details unique to the risk being insured. It acts as the "who, what, when, and where" of the contract.

Question: 1021

A homeowner in a high-risk brush zone carries an HO-3 policy through the California FAIR Plan. During a heavy windstorm, a tree limb falls, piercing the roof and allowing rain to damage an antique rug valued at $12,000. How will the FAIR Plan respond to this claim?

A. The claim is denied because wind and falling objects are not basic perils under the FAIR Plan.
B. The claim is paid only if the "Extended Coverage" endorsement was purchased.
C. The claim is paid in full minus the deductible as a named peril.
D. The rug is covered under the "Fair Rental Value" provision.

Answer: B
Explanation: The California FAIR Plan is a "Basic Property Insurance" pool. The standard policy covers only fire, lightning, internal explosion, and smoke. For perils such as windstorm, hail, and falling objects to be covered, the insured must specifically select and pay for the "Extended Coverage" (EC) endorsement. Without this endorsement, damage resulting from a wind-driven falling object is an excluded peril.

Question: 1022

A comprehensive pet insurance policy carries a $35,000 lifetime maximum benefit limit and no annual cap. Over the first five years of coverage, the insurer has reimbursed a cumulative total of $31,400 for ongoing management of inflammatory bowel disease, recurrent urinary tract infections, and eventual diagnosis and treatment of lymphoma (chemotherapy and supportive care). In year six, the pet suffers an acute intervertebral disc herniation requiring emergency hemilaminectomy surgery costing $9,200. Assuming the claim meets all other policy requirements and is unrelated to prior conditions, what is the maximum amount the insurer will reimburse for this new surgical claim?

A. $9,200 because there is no annual limit restricting the claim

B. $9,200 because acute surgical conditions receive priority allocation
C. $0 because the lifetime limit is nearly exhausted
D. $3,600 remaining under the lifetime maximum

Answer: D
Explanation: The lifetime benefit limit represents the total maximum amount the insurer will ever pay for all covered claims combined throughout the life of the policy. After reimbursing $31,400 in prior claims, only $3,600 remains available from the $35,000 lifetime cap to apply toward any future covered expenses, including the new disc surgery.

Question: 1023

An insured has a General Liability policy with a $1,000,000 per occurrence limit and a $2,000,000 aggregate limit. If the insured has three separate claims in one year for $500,000, $800,000, and $900,000, how much will the insurer pay for the third claim?

A. $500,000
B. $700,000
C. $200,000
D. $900,000

Answer: B
Explanation: The first claim uses $500,000 of the aggregate. The second claim uses $800,000 of the aggregate. Total used so far is $1,300,000. The remaining aggregate limit is $700,000 ($2,000,000 minus $1,300,000). Therefore, the most the insurer can pay for the third claim is the remaining aggregate of $700,000.

Question: 1024

A restaurant closes for a 45-day renovation, leaving the building vacant with no business personal property on premises. A pipe burst causes water damage during this period under a commercial property policy with standard vacancy provisions. What is the most accurate outcome regarding coverage?

A. Coverage is reduced by 15% for the direct damage portion only.
B. Full coverage applies because renovations qualify as customary operations.
C. No coverage applies for water damage if vacancy exceeds 60 days.
D. Coverage is suspended entirely for perils other than specified exceptions like fire.

Answer: D
Explanation: Standard commercial property vacancy provisions suspend coverage for most perils after 60 consecutive days of vacancy, but many policies provide limited coverage or exceptions for certain named

perils like fire, vandalism, or sprinkler leakage during vacancy periods under 60 days; however, in this 45-day scenario with no exception triggered for pipe burst, full coverage remains applicable until the threshold is met.

Question: 1025

An insured's 16-year-old child intentionally spray-paints graffiti on a neighbor's brick wall, causing $2,000 in damage. The neighbor sues for property damage. How does the HO-3 policy respond?

A. It pays $1,000 under the "Damage to Property of Others" additional coverage.
B. It pays the full $2,000 under Section II Liability.
C. It pays $0 because the act was intentional.
D. It pays only if the child is arrested.

Answer: A
Explanation: Section II Liability (Coverage E) excludes intentional acts. However, the "Additional Coverages" section includes "Damage to Property of Others," which pays up to $1,000 for property damage caused by an insured, even if intentional, provided the insured is under age 13. Wait—correction: The standard ISO limit is $1,000, and it *excludes* intentional acts by anyone 13 or older. Thus, the $1,000 limit is the correct mechanism for these small claims, but the age trigger is the key differentiator for intentionality.

Question: 1026

An insurer denies a claim because the owner failed to provide "Medical Records" from the pet's previous vet. The owner claims they don't have them. What is the standard industry requirement for claim substantiation?

A. The state insurance department must provide the records
B. The insurer must accept the owner's verbal history of the pet
C. The owner is responsible for providing the required medical history to prove the condition is not pre-existing
D. The insurer must pay the vet to recreate the records from memory

Answer: C
Explanation: The burden of proof typically lies with the policyholder to provide the necessary documentation (medical records) to substantiate a claim and prove the pet's health history.

Question: 1027

A vacant building policy includes a vacancy permit endorsement. During the permitted period, vandalism causes damage. What effect does the endorsement have?

A. It suspends all coverage.
B. It waives the vacancy exclusion entirely.
C. It applies only to fire and lightning.
D. It reduces coverage by 30%.

Answer: B
Explanation: A vacancy permit endorsement typically waives or modifies the vacancy exclusion for the specified period, allowing coverage for otherwise excluded perils during vacancy.

Question: 1028

Which section of a commercial property policy would an insured consult to find the specific description of the covered premises, the policy period, and the limits of insurance applicable to the various coverages?

A. Declarations
B. Definitions
C. Conditions
D. Exclusions

Answer: A
Explanation: The Declarations page serves as the descriptive portion of the insurance contract, containing the specific information unique to the risk, such as the name and address of the insured, the location of the property, the policy term, the amount of premium, and the limits of liability.

Question: 1029

If a pet insurance company wants to increase premiums for a specific breed in a specific state, what must they generally do?

A. Increase the rates immediately without notice as per the "Risk Change" clause.
B. File the new rates with the State Department of Insurance and receive approval.
C. Only increase rates for pets that have filed claims in the last year.
D. Call every policyholder to get verbal consent.

Answer: B
Explanation: Pet insurance is a P&C line of business. Like auto or homeowners insurance, carriers must file their rating plans and any subsequent changes with the state's regulatory body (Department of Insurance) to ensure the rates are not inadequate, excessive, or unfairly discriminatory.

Question: 1030

An insured’s manufacturing plant is destroyed by fire. The insured carries Business Income (and Extra Expense) Coverage. During the period of restoration, the insured spends $50,000 to rent a temporary facility and $10,000 to air-freight new machinery to reduce the total downtime by three weeks. The three-week reduction in downtime saves the insurer $70,000 in lost business income. How much will the insurer pay for the $60,000 spent?

A. $50,000
B. $0
C. $60,000
D. $10,000

Answer: C
Explanation: Extra Expense coverage pays for necessary expenses an insured incurs during the period of restoration that would not have been incurred if there had been no direct physical loss. Because the $60,000 expenditure resulted in a $70,000 reduction in the Business Income loss (a "loss of income" mitigation), the full amount is covered because it did not exceed the amount by which the loss was reduced, and Extra Expense coverage itself is not subject to a "to the extent it reduces the loss" limitation in the same way that "Expenses to Reduce Loss" are under the Business Income without Extra Expense form.

Question: 1031

Which of the following describes an insurance contract where only one party—the insurer—makes a legally enforceable promise to perform?

A. Unilateral
B. Aleatory
C. Conditional
D. Personal

Answer: A
Explanation: An insurance policy is a unilateral contract because only the insurer is legally bound to perform its part of the agreement (paying claims) as long as the insured has paid the premium and follows the policy conditions.

Question: 1032

A Commercial Property policy is written with the "Value Reporting Form" endorsement. The insured fails to submit the required report on time. If a loss occurs, how does this affect the claim?

A. The insurer will pay the full amount of the loss but cancel the policy.
B. The insurer will pay no more than the amount last reported.
C. The insurer will pay the full amount of the loss minus a 50% penalty.
& D) The insurer will void the policy back to its inception date.

Answer: B
Explanation: The Value Reporting Form is used for businesses with fluctuating inventory. If the insured fails to file a report by the time a loss occurs, the policy contains a penalty provision stating the insurer will pay no more than the amount reported on the last report filed before the loss.

Question: 1033

Which of the following would be considered a "Chronic Condition" under a pet insurance policy?

A. Spaying or neutering the pet
B. An acute case of food poisoning
C. Diabetes mellitus requiring lifelong insulin
D. A laceration from a fence that heals in ten days

Answer: C
Explanation: Diabetes mellitus requiring lifelong insulin fits the definition of a chronic condition, as it requires ongoing management and has no permanent cure.

Question: 1034

Under the Dwelling Policy forms, Coverage B (Other Structures) usually provides a limit that is what percentage of the Coverage A limit?

A. 20%
B. 10%
C. 80%
D. 50%

Answer: B
Explanation: In standard Dwelling forms (DP-1, DP-2, and DP-3), Coverage B (Other Structures) is automatically provided at a limit equal to 10% of the Coverage A (Dwelling) limit. Note that in the DP-1, this is not an additional amount of insurance, while in the DP-2 and DP-3, it is.

Question: 1035

A property owner in California is sued for negligence after a visitor slips and falls on an unmarked wet floor in the owner's rental property lobby. The owner had failed to place warning signs or clean the spill promptly, but evidence shows the visitor was texting and not watching their path, contributing 40% to the cause of the fall. Under California's pure comparative negligence rule, how will damages be allocated if the total damages are $100,000?

A. The owner pays $50,000 if fault is split equally
B. The owner pays $100,000 with no reduction
C. The owner pays nothing because the visitor was partially at fault
D. The owner pays $60,000 after a 40% reduction for the visitor's fault

Answer: D
Explanation: California follows pure comparative negligence under Civil Code §1714, allowing recovery of damages reduced by the plaintiff's percentage of fault regardless of whether it exceeds 50%, so $100,000 reduced by 40% results in the defendant paying $60,000.

Question: 1036

The "Liberalization Clause" in a P&C policy serves what purpose?

A. It automatically applies broadened coverage to existing policies if the insurer introduces a change that does not require an additional premium.
B. It allows the insured to choose their own contractor for repairs regardless of cost.
C. It allows the insured to cancel the policy at any time for a full refund.
D. It permits the insurer to increase premiums mid-term if the risk profile changes.

Answer: A
Explanation: The Liberalization Clause states that if the insurer adopts a revision that would broaden the coverage under the policy without additional premium within a specified period (usually 60 days) prior to or during the policy period, the broadened coverage will immediately apply.

Question: 1037

An insurer in California decides to stop offering a specific pet insurance product. To comply with "Renewability" regulations, what must the insurer do to ensure the policyholder is not left without options for a pet with a chronic condition?

A. Offer a replacement policy that does not exclude pre-existing conditions covered by the prior policy
B. Refund all premiums paid since the pet was first diagnosed with the condition

C. Automatically convert the policy to a homeowners' liability rider
D. Provide a one-time lump sum payment equal to five years of premiums

Answer: A
Explanation: Offer a replacement policy that does not exclude pre-existing conditions covered by the prior policy ensures that the insured is not penalized by the insurer's decision to discontinue a specific product line.

Question: 1038

A homeowner’s policy is written on a "Named Peril" basis. A heavy rainstorm causes water to seep through the foundation, flooding the basement. The policy lists "Fire, Lightning, Wind, and Hail" as covered. Will the insurer pay for the basement flood?

A. Yes, because rain is associated with windstorms
B. No, because flood and seepage are not listed perils
C. No, because the damage was caused by a natural disaster
D. Yes, under the "Open Peril" extension

Answer: B
Explanation: In a named peril policy, the burden of proof is on the insured to show that the loss was caused by a peril specifically listed in the policy. Since "seepage" or "flood" is not listed, there is no coverage for the event.

Question: 1039

A CPP includes commercial property with special causes of loss and business income. A cyber event causes physical damage to servers, interrupting operations. Which standard exclusion most likely denies business income coverage?

A. Ordinance or law increasing rebuild costs post-loss
B. Employee dishonesty contributing to system compromise
C. Acts or omissions by insureds in data security leading to virus introduction
D. Utility failure not caused by covered direct physical loss

Answer: C
Explanation: Commercial property and BOP forms exclude losses from computer viruses, hacking, or unauthorized access unless endorsed; cyber-induced physical damage often falls under electronic data processing exclusions.

Question: 1040

A "Standard Fire Policy" in California must provide coverage for which of the following perils?

A. Fire, windstorm, and hail.
B. Fire, lightning, and removal from premises endangered by the perils insured against.
C. Flood, earthquake, and fire.
D. Fire, theft, and vandalism.

Answer: B
Explanation: The California Standard Form Fire Insurance Policy is required to cover at minimum the perils of fire, lightning, and the cost of removing property from premises endangered by these perils.

Question: 1041

Following a covered water loss from a burst pipe, mold grows extensively in the walls and HVAC system, requiring remediation costing $25,000. The policy includes limited fungi, wet or dry rot, or bacteria coverage with a $10,000 aggregate limit. How much will the policy pay for mold remediation?

A. Nothing, as mold is fully excluded
B. The full amount if the water loss was sudden and accidental
C. The full $25,000 as an ensuing loss
D. Up to $10,000 aggregate for all fungi-related losses in the policy period

Answer: D
Explanation: Homeowners policies typically exclude fungi, mold, and bacteria except for limited coverage provided under an endorsement or built-in provision, which caps payment at an aggregate limit (such as $10,000) for remediation costs resulting from a covered water loss.