

FREE CA FIRE & CASUALTY PRACTICE EXAM

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1. Yvonne has a Personal Auto Policy with Bodily Injury liability limits of \$25,000/\$50,000. In an at-fault accident, she injures 3 parties in the other car as follows: Mr. A - \$10,000; Mr. B - \$35,000 and Ms. C -\$12,000. Not counting the cost of defense, how much will her policy pay:
 - A. \$57,000
 - B. \$50,000
 - C. \$47,000
 - D. \$45,000

2. Jan has a PAP that provides full coverage for her car. Naomi has a PAP that covers her car for liability only. If Jan is involved in an at-fault accident while driving Naomi's car, how will coverage be allocated:
 - A. Jan's policy is primary for both Bodily Injury to others and Collision damage to Naomi's car
 - B. Naomi's policy is excess for both Bodily Injury to others and Collision damage to her car
 - C. Jan's policy is excess for Bodily Injury to others but primary on the Collision damage to Naomi's car
 - D. Naomi's policy is primary for Bodily Injury to others, but neither policy will cover the Collision damage to Naomi's car

3. For insurance purposes, the word 'subrogation' is most closely identified with:
 - A. Arbitration
 - B. Substitution
 - C. Appraisal
 - D. Severability

4. On a PAP, free coverage for 'Transportation Expenses' is provided in addition to limits without any deductible if the insured purchases:
 - A. Bodily Injury liability
 - B. Property Damage liability
 - C. Other than Collision and Collision
 - D. Uninsured Motorist and Underinsured Motorist liability

5. On a PAP, Other than Collision coverage is also known as:
 - A. Physical Damage
 - B. Comprehensive
 - C. Property Damage
 - D. Collision

6. On a Commercial or Business Auto policy, symbol #7 means that which of the following autos are covered:
- A. Any auto
 - B. Owned autos
 - C. Non-owned autos
 - D. Specifically listed autos
7. On a Personal Auto Policy (PAP), the coverage territory is defined as:
- A. Anywhere in the world
 - B. Anywhere in the United States
 - C. The U.S., it's territories, Puerto Rico and Mexico
 - D. The U.S., it's territories, Puerto Rico and Canada
8. Required minimum auto liability limits in California are relatively low, which means that if an insured with minimum limits drives his covered auto across state lines into a state that has higher minimum liability requirements:
- A. His California auto policy will automatically conform to the state laws of any state in which the insured happens to be driving
 - B. The insured will be in violation of the state law in that state
 - C. The insured's California policy will not provide any coverage
 - D. The insured must add an endorsement increasing his limits before driving into a state with higher minimum liability requirements
9. Joe carries auto Medical coverage with limits of \$2,000 on his Personal Auto Policy. Which of the following is true regarding this coverage:
- A. The most the policy will pay for Medical is \$2,000 per occurrence
 - B. Joe's 10 year old son is not covered if he is hit by a car while crossing the street
 - C. Medical coverage only applies to Joe and members of his family
 - D. If Joe and his passenger Dale are both injured in an auto accident, the policy will pay their medical bills up to \$2,000 each
10. The main difference between an HO-3 and an HO-4 is:
- A. The liability coverage
 - B. Coverage A
 - C. Coverage C
 - D. The coverage for theft of contents
11. Claim 'reserves' are:
- A. The amount a claim can be settled for in the future
 - B. The amount that the insurer paid to settle the claim
 - C. An estimate of the amount that it will take to settle the claim
 - D. Always equal to the insured's policy limit

12. All-risk property insurance policies are also known as _____ peril policies:
- A. Named
 - B. Specified
 - C. Scheduled
 - D. Open
13. An Equipment Dealers coverage form is designed to cover which of the following:
- A. Mobile equipment, including farm and construction equipment
 - B. Automobiles and trucks
 - C. Motorcycles
 - D. Boats
14. Examples of 'tort' law include all of the following EXCEPT:
- A. Bodily injury
 - B. Personal injury
 - C. Breach of contract
 - D. Libel and slander
15. Insurers who have a Certificate of Authority in this state are known as:
- A. Unauthorized
 - B. Non-admitted
 - C. Domestic
 - D. Admitted
16. Which of the following is an example of risk 'retention':
- A. Buying insurance
 - B. Filing a lawsuit for negligence
 - C. Driving without auto insurance
 - D. Requiring a 'hold harmless' agreement
17. On property insurance, which of the following best describes the term 'market value':
- A. Actual cash value at the time the policy was written
 - B. Replacement cost at the time of loss
 - C. Tax appraised value by the county assessor
 - D. The price the property could be sold for
18. Which Part of Medicare is designed to cover hospital bills:
- A. Part A
 - B. Part B
 - C. Part C
 - D. Part D

19. Making a customer 'whole' again after a loss is known as:
- A. Reimbursement
 - B. Indemnification
 - C. Compensation
 - D. Valuation
20. The language in a property policy that allows the insurer to recover what they paid out to the insured from a negligent 3rd party is known as:
- A. Liberalization
 - B. Severability
 - C. Subrogation
 - D. Pro-rata liability
21. On a Personal Auto Policy (PAP), which of the following is not considered to be a 'Supplementary' payment:
- A. Pre-judgment interest
 - B. Cost of a bail bond
 - C. Cost of an appeal bond
 - D. Loss of earnings if the insurer requires the insured's attendance at a trial
22. In a tort lawsuit, which of the following could result in the payment of 'Special' damages:
- A. Scarring
 - B. Loss of limb
 - C. Lost wages
 - D. Disfigurement
23. Which organization designs standard insurance policy forms:
- A. National Association of Insurance Commissioners (NAIC)
 - B. Insurance Services Office (ISO)
 - C. National Council of Compensation Insurers (NCCI)
 - D. Independent Insurance Agents of America (IIAA)
24. A property insurance policy may not be 'assigned' without the consent of the:
- A. Agent
 - B. Insured
 - C. Commissioner
 - D. Insurer

25. When an employer has the choice of purchasing Workers Compensation insurance from either the State Compensation Fund or from any authorized private insurer, the Workers Compensation system is considered to be:
- A. Competitive
 - B. Exclusive
 - C. Monopolistic
 - D. Independent

ANSWERS & RATIONALES

1. **C** Although this is a \$57,000 claim, only \$47,000 will be paid out. Yvonne's PAP will pay Mr. A \$10,000 and Ms. C \$12,000, but her per person limit of liability of \$25,000 limits what can be paid to Mr. B, which means that the most her policy will pay is \$10,000 + \$25,000 + \$12,000, for a total of \$47,000. Yvonne will have to pay Mr. B \$10,000 out of her own pocket.
2. **C** Remember, the owner's policy is always primary. Naomi is the owner of the car and Jan is the driver. Naomi's PAP states that she can loan her car to anyone she wants, and her policy will be primary. Jan's BI coverage will be excess, if needed. However, since Naomi does not have Collision coverage on her own car, Jan's policy will become primary for that coverage, since her policy states that she is covered to drive anyone else's car, with their permission.
3. **B** The 'subrogation' clause on Property insurance or on Auto Physical Damage is designed to prevent double recovery. For example, without the 'subrogation' clause in a policy, an insured could turn an auto collision claim into his own auto insurer and could also sue an at-fault driver who caused the accident, thereby collecting twice.

The subrogation clause states that the insurer will require from the insured an assignment of all rights of recovery against any party for loss to the extent that payment is made. In other words, in consideration of the insurer's payment to the insured, the insurer takes over the insured's right of recovery (is 'substituted') and will sue the negligent 3rd party to recover the money they paid out to the insured.

4. **C** On a PAP, if the insured purchases Physical Damage (OTC and Collision) coverage, limited coverage is provided for Transportation Expenses incurred due to a covered loss to an owned or non-owned auto beginning when the auto is withdrawn from use for more than 24 hours. There is no extra premium charged, no deductible and coverage is provided in addition to limits.
5. **B** Historically, OTC was known as 'comprehensive' coverage, which meant that the coverage provided was virtually 'all-risk', covering everything EXCEPT for collision and whatever was excluded (such as mechanical break down and freezing of an engine block).
6. **D** The Business Auto Coverage form covers only those autos that are identified in the Declarations by an appropriate numerical symbol. The broadest coverage available is reflected by symbol #1, which indicates that 'any auto' is covered, including all owned, hired and non-owned autos. However, the insured may narrow coverage by selecting symbol #7 instead, which provides coverage for only those autos specifically listed on the Declarations page.

7. **D** Under the General Provisions section of a PAP, the policy territory is defined to include the United States, its territories, Puerto Rico and Canada. There is no coverage in Mexico or any other foreign country besides Canada.
8. **A** A PAP contains a policy provision that states that it will automatically conform to the state laws of any state in which the insured happens to be driving. For example, a CA insured carries minimum auto Bodily Injury liability limits of \$15,000/\$30,000. If he drives to Colorado, his liability limits will automatically increase to \$25,000/\$50,000, which are required minimums in that state. No endorsement need be added and no additional premium is due.
9. **D** Optional auto Medical coverage is written with a policy limit that applies per person, not per occurrence. The coverage applies to the named insured, his family members and any other person occupying a covered auto. Family members are also covered as pedestrians, when struck by a motor vehicle designed for use mainly on public roads. Medical covers reasonable medical expenses incurred within 3 years from the date of the accident, including funeral services.
10. **B** The various Homeowners policy forms have a lot in common. They all cover the peril of theft, which is defined as any act of stealing, and they all provide the same liability coverage. Further, Coverage C (contents coverage) is the same on an HO-2, HO-3 and HO-4, which all provide Broad Form named peril coverage for contents, plus theft. However, since an HO-4 is written to cover a tenant (or renter), it does not provide any Coverage 'A' perils for the dwelling, since the insured does not own it.
11. **C** A claims adjuster, upon receipt of Notice of Claim, will estimate the amount that the insurer should set aside to settle a claim, which is known as a claims reserve. Reserves are subject to change from time to time, depending upon the extent and severity of the claim.
12. **D** All-risk property policies (such as an HO-5) are also known as 'open' peril policies, meaning that everything is covered except that which is excluded. A 'named' peril policy (such as an HO-2) covers only specified, listed perils. If the peril is not listed, it is not covered.
13. **A** An Equipment Dealers coverage form is a type of commercial inland marine insurance that is designed to cover the interest of a dealer of mobile equipment, including equipment used primarily for agriculture and construction. This form also protects similar property of others that is in the care, custody, or control of the insured. It does not cover autos, trucks, motorcycles or boats. It is similar to Garage Keepers Legal Liability, which a bailee's type coverage purchased by auto dealers, repair shops and parking lots.
14. **C** A 'tort' is defined as a civil injury or wrong. Tort lawyers specialize in injury cases, where an injured party (the plaintiff) files a lawsuit against another party (the defendant) for damages. Tort law includes bodily injury, property damage and personal injury, which includes libel and slander. However, although you can be sued for financial damages due to breach of contract, it is not a tort. The most common tort is negligence, which is defined as the failure to act as reasonable and prudent person.

15. **D** All insurers, whether they are foreign, domestic or alien, must be ‘admitted’ or ‘authorized’ by the Commissioner before they can sell insurance in this state. However, Surplus Lines insurers (such as Lloyds of London) are exempt from this requirement, and may transact insurance in this state even though they are ‘unauthorized’ or ‘non-admitted’. In other words, Surplus Lines insurers are unregulated.
16. **C** Risk is defined as the chance of loss. Once risk is identified, it must be managed, either by reduction, retention, avoidance or transfer. The most common way to manage risk is to transfer it to an insurance company, in consideration of a premium. Risk can also be transferred to a negligent 3rd party in a lawsuit or by requiring a hold harmless agreement in a business transaction, which requires the risk to be ‘assumed’ by others. However, driving without insurance is a form of risk retention, in that if you injure someone, you will have to pay their claim out of your own pocket.
17. **D** Although property taxes may be based upon the market value of a property, market value has little to do with property loss valuation, which is either based upon ACV or Replacement Cost at the time of the loss, not counting the value of the land. For example, if a house is located next to the railroad track, its replacement cost could easily exceed its market value.
18. **A** Medicare is health insurance for seniors age 65 or better and is part of Social Security. Part ‘A’ of Medicare provides coverage for hospitals and is available to all participants without charge. Part ‘B’ of Medicare is optional and is available for an additional premium. It covers doctors (physician services). Part ‘C’ of Medicare is also known as Medicare Advantage, where the Medicare beneficiary elects to receive Medicare benefits from an HMO, rather than from Original Medicare, usually for little or no premium. Part ‘D’ of Medicare is coverage for prescription drugs.
19. **B** Most Fire and Casualty policies follow the Principle of Indemnity, which states that the purpose of insurance is to make you ‘whole’ again financially after a loss, but not to allow a profit. This is known as indemnification.
20. **C** The subrogation clause in a property policy may require from the insured an assignment of all rights of recovery against any party for loss to the extent that payment therefore has been made by the company. The main purpose of the subrogation clause is to prevent double recovery.
21. **A** The PAP automatically includes several Supplementary payments in addition to limits at no extra premium charge. However, only the interest that accrues on a judgment after it is entered (not before) is covered, which is called ‘post-judgment’ interest. Post-judgment interest may be due when the insurer appeals a judgment against them and loses again in court. Interest is due on the judgment from the time it was first rendered.
22. **C** Special damages consist of medical expenses and lost wages. They are an exact and verifiable figure. General damages are the hardest damages to prove in court, since they are intangible. General damages include pain and suffering resulting from scarring, loss of limb, disfigurement or loss of ‘consortium’ (companionship).
23. **B** The ISO is a non-profit organization owned by member insurance companies. The ISO writes standard policy forms (such as the PAP, DP and HO forms), which are used by ISO member firms throughout the U.S. Although insurers are free to write their own

policy forms, most adopt those written and filed by the ISO with the Commissioner on their behalf.

24. **D** Although not commonly done, a property policy may be assigned with the written consent of the insurance company. For example, you sell your house and the new owner would like to take over the ownership of your fire insurance policy. You can submit an endorsement to the insurer requesting that the ownership of the policy be transferred from you to the new owner. However, approval of the new owner would be up to the company underwriter, who must give his or her written consent to the change.
25. **A** California has a 'competitive' system for Workers Compensation, meaning that employers may satisfy the law by purchasing the mandatory coverage from any insurer authorized to sell it or from the State Compensation Fund, or may choose to self insure by posting a surety bond with the state Director of Industrial Relations. Some states have a 'monopolistic' system, where coverage may only be purchased from the State Compensation Fund.