

# Alberta General Insurance Level 2 License Practice Exam (Sample)

## Study Guide



**Everything you need from our exam experts!**

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# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

**Remember:** successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

# How to Use This Guide

**This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:**

## **1. Start with a Diagnostic Review**

**Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.**

## **2. Study in Short, Focused Sessions**

**Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.**

## **3. Learn from the Explanations**

**After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.**

## **4. Track Your Progress**

**Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.**

## **5. Simulate the Real Exam**

**Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.**

## **6. Repeat and Review**

**Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.**

**There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!**

## Questions

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- 1. Under Statutory Condition 9, Salvage, what is the obligation of the insured?**
  - A. To abandon the damaged property to the insurer**
  - B. To take all reasonable steps to prevent further loss**
  - C. To submit the property for repair immediately**
  - D. To document all damages incurred**
  
- 2. What is typically included in the definition of an "insured peril"?**
  - A. Any accidental damage**
  - B. Specific events that are covered under a policy**
  - C. All types of health issues**
  - D. Incidents that occur outside the policy period**
  
- 3. How is economic loss defined in the context of insurance?**
  - A. Loss of a job due to company downsizing**
  - B. Financial loss resulting from damage or injury**
  - C. Non-monetary damages such as emotional distress**
  - D. Losses related to market fluctuations**
  
- 4. If a property insurance policy covers replacement cost, what will the insurer do if the insured's home burns down?**
  - A. Rebuild on the new site for full replacement value**
  - B. Rebuild only on the same site or an adjacent site**
  - C. Rebuild on the new site for actual cash value**
  - D. Not rebuild or offer settlement of any kind**
  
- 5. How does moral hazard affect policyholder behavior?**
  - A. It encourages safer practices among insured individuals**
  - B. It leads to decreased risk-taking since they feel protected**
  - C. It may lead to riskier behavior due to insurance coverage**
  - D. It eliminates the need for insurance entirely**

- 6. What is a common feature of mutual insurance companies?**
- A. They are owned by stockholders**
  - B. They distribute profits to policyholders**
  - C. They require high premiums**
  - D. They use only one type of policy**
- 7. What does "policy limits" refer to?**
- A. The range of services covered by the insurance policy**
  - B. The maximum amount that an insurance company will pay for a covered loss**
  - C. The minimum required coverage by law**
  - D. The fees charged for adjusting claims**
- 8. What does the Optional Loss Settlement Clause provide under a Homeowners policy?**
- A. Replacement cost applies only if premium is paid**
  - B. It is applicable to both building and contents**
  - C. It requires a co-insurance clause**
  - D. None of the above**
- 9. In the absence of a broker, what can a licensed employee do?**
- A. Confirm risk coverage to the applicant**
  - B. Perform normal broker acts**
  - C. Settling small claims only**
  - D. Complete an application only**
- 10. Which statement is FALSE regarding Section C of the Standard Policy Form (S.P.F. 1)?**
- A. Specified Perils covers named perils only**
  - B. Comprehensive covers all risks subject to exclusions**
  - C. All Perils covers all risks subject to exclusions**
  - D. Collision or upset does not apply to vessels between Canada and the U.S.A**

## **Answers**

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1. B
2. B
3. B
4. A
5. C
6. B
7. B
8. D
9. B
10. D

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## **Explanations**

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**1. Under Statutory Condition 9, Salvage, what is the obligation of the insured?**

- A. To abandon the damaged property to the insurer**
- B. To take all reasonable steps to prevent further loss**
- C. To submit the property for repair immediately**
- D. To document all damages incurred**

Under Statutory Condition 9, Salvage, the obligation of the insured is to take all reasonable steps to prevent further loss. This requirement emphasizes the duty of the insured to mitigate damages after a loss has occurred. It involves doing what is necessary to protect the property from additional harm or deterioration, which can include actions like securing the property, making temporary repairs, or removing it from a hazardous situation. This obligation is crucial because preventing further loss not only helps the insured minimize their potential financial impact but also supports the insurer in managing claims effectively. The other options do not align with the expectations set forth by this statutory condition. Abandoning damaged property would not be a responsible or reasonable action, as it could lead to further losses that the insurer may need to cover. Submitting property for immediate repair or documentation of damages, while potentially beneficial actions, do not encapsulate the main obligation of the insured under this particular statutory condition.

**2. What is typically included in the definition of an "insured peril"?**

- A. Any accidental damage**
- B. Specific events that are covered under a policy**
- C. All types of health issues**
- D. Incidents that occur outside the policy period**

The definition of an "insured peril" refers to specific events or risks that are explicitly covered under an insurance policy. Understanding this concept is vital, as it outlines what kinds of risks the insurer agrees to provide financial protection against. When a policy is created, it lists out the perils that are covered, such as fire, theft, vandalism, or certain natural disasters. This clarity helps policyholders understand the protection they have and under what circumstances they can file a claim. Each insurance policy may have different covered perils, and knowing which are included helps ensure that individuals have adequate protection for their specific needs. Other options do not correctly represent the concept of an "insured peril." For example, defining it as any accidental damage can be misleading, as not all accidental damage might fall under the coverage. Similarly, including all types of health issues would imply coverage that's far broader than most policies offer, which typically relate to property or specific incidents rather than general health concerns. Lastly, incidents that occur outside the policy period do not count as insured perils, as coverage generally applies only to events that happen during the active policy term.

### **3. How is economic loss defined in the context of insurance?**

- A. Loss of a job due to company downsizing**
- B. Financial loss resulting from damage or injury**
- C. Non-monetary damages such as emotional distress**
- D. Losses related to market fluctuations**

Economic loss in the context of insurance is defined as financial loss resulting from damage or injury. This type of loss specifically addresses the quantifiable financial impacts that occur due to an event that causes harm or damages to property, assets, or individuals. In terms of insurance claims, economic loss can include expenses such as repair costs, loss of income due to inability to work, and other monetary damages that can be directly attributed to the insured event. Understanding economic loss is crucial for both insurers and insured parties because it outlines the scope of recoverable damages. Insurers typically assess these losses when determining payouts for claims related to property damage, liability, or other covered occurrences. This clear definition helps ensure that affected parties receive appropriate compensation for their financial detriment resulting from unforeseen incidents. In contrast, scenarios such as job losses due to downsizing or emotional distress focus on factors that either do not have a direct monetary value or cannot be quantified in terms of economic impact, which distinguishes them from the concept of economic loss defined in an insurance context. Losses related to market fluctuations also fall outside this definition, as they pertain to broader economic conditions rather than direct consequences of injury or damage.

### **4. If a property insurance policy covers replacement cost, what will the insurer do if the insured's home burns down?**

- A. Rebuild on the new site for full replacement value**
- B. Rebuild only on the same site or an adjacent site**
- C. Rebuild on the new site for actual cash value**
- D. Not rebuild or offer settlement of any kind**

When a property insurance policy specifies that it covers replacement cost, it indicates that the insurer will provide compensation for the full cost of rebuilding or repairing the home without deducting for depreciation. In the event of a total loss, such as when a home burns down, the insurer is obligated to restore the property to its original state. This means rebuilding the home to its full replacement value. Choosing to rebuild on a new site for the full replacement value aligns perfectly with the nature of replacement cost coverage. It ensures that the insured can replace their home with a new structure that meets current building codes and standards, irrespective of the original home's conditions or market fluctuations. In this context, options that limit the insurer's responsibility, such as rebuilding only on the same site or an adjacent site, or providing a settlement based on actual cash value, do not reflect the principles of replacement cost coverage. Additionally, the notion of not rebuilding or offering settlement contradicts the fundamental purpose of insurance, which is to indemnify the insured for losses.

- 5. How does moral hazard affect policyholder behavior?**
- A. It encourages safer practices among insured individuals**
  - B. It leads to decreased risk-taking since they feel protected**
  - C. It may lead to riskier behavior due to insurance coverage**
  - D. It eliminates the need for insurance entirely**

Moral hazard refers to a situation where the behavior of an insured individual changes as a result of having insurance coverage. When individuals feel protected by insurance, they may engage in riskier behavior than they would if they were fully exposed to the potential consequences of that risk. This occurs because the insurance policy bears the financial burden, which can lead to a decreased incentive to act cautiously. For instance, a policyholder who has comprehensive coverage may be less vigilant about securing their property or driving safely, knowing that any potential losses or damages will be covered by their insurance. This change in behavior is the essence of moral hazard; the safety net provided by insurance can inadvertently encourage actions that increase the likelihood of a claim being made. Understanding moral hazard is crucial for insurers, as it can significantly influence risk assessments and premium settings, reflecting the need for policyholders to remain aware of their actions even when covered.

- 6. What is a common feature of mutual insurance companies?**
- A. They are owned by stockholders**
  - B. They distribute profits to policyholders**
  - C. They require high premiums**
  - D. They use only one type of policy**

A common feature of mutual insurance companies is that they distribute profits to policyholders. This structure allows policyholders who are also members of the mutual company to benefit directly from its financial performance. When the company earns a profit, it can choose to distribute this profit in the form of dividends or reduced premiums to its policyholders, reflecting their ownership stake in the company. This contrasts with stock insurance companies, which are owned by shareholders who may not have any policy ownership and thus do not receive profit distributions in the same manner. In contrast, mutual insurance companies do not operate on the basis of stock ownership, which is why the choice regarding ownership by stockholders is not applicable. Additionally, while some mutual companies may set premiums based on financial needs and risk levels, they do not inherently require high premiums compared to other types of insurance companies. Finally, mutual insurance companies are not limited to a single type of policy; rather, they may offer a variety of insurance products tailored to the needs of their policyholders, reflecting the diverse market demands.

## 7. What does "policy limits" refer to?

- A. The range of services covered by the insurance policy
- B. The maximum amount that an insurance company will pay for a covered loss**
- C. The minimum required coverage by law
- D. The fees charged for adjusting claims

"Policy limits" refers specifically to the maximum amount that an insurance company will pay for a covered loss. Each insurance policy specifies its limits, which set a ceiling on the insurer's financial obligation to the insured in the event of a claim. These limits can vary depending on the type of policy and coverage purchased. Understanding policy limits is crucial for insured individuals, as it helps them to know the extent of their financial protection in various scenarios. For instance, if a homeowner has a policy limit of \$300,000 on their property insurance, that is the maximum the insurer will pay out for any covered damages to that property. In terms of other options, while the range of services covered is important in assessing a policy, it does not define the monetary scope of coverage. Minimum required coverage pertains to legal requirements and varies by jurisdiction but does not specifically relate to policy limits. Meanwhile, claims adjustment fees refer to administrative costs associated with processing claims, which are distinct from the actual coverage provided by a policy.

## 8. What does the Optional Loss Settlement Clause provide under a Homeowners policy?

- A. Replacement cost applies only if premium is paid
- B. It is applicable to both building and contents
- C. It requires a co-insurance clause
- D. None of the above**

The Optional Loss Settlement Clause in a Homeowners policy is an important provision that specifically outlines how claims for loss or damage to insured property are settled. It typically allows for the payment of claims based on the replacement cost of the damaged property, meaning that the insured will be compensated for the amount necessary to replace or repair the property without deducting for depreciation. The correct response aligns with the fact that none of the listed options accurately reflect the purpose or specifics of the Optional Loss Settlement Clause. For example, while replacement cost may indeed apply, it is not accurate to say it applies only if a premium is paid, as the clause is more comprehensive in scope. The clause also does not require a co-insurance provision or apply solely to either buildings or contents, since its scope generally covers both aspects without limitation as indicated by the other options. Thus, by correctly identifying that none of the given choices correctly describe the component or application of the Optional Loss Settlement Clause, the selected answer demonstrates a clear understanding of this insurance provision.

**9. In the absence of a broker, what can a licensed employee do?**

- A. Confirm risk coverage to the applicant**
- B. Perform normal broker acts**
- C. Settling small claims only**
- D. Complete an application only**

When considering the role of a licensed employee in the absence of a broker, it's crucial to recognize that these employees are generally authorized to perform activities that typically fall under the purview of a broker. This means they can engage in transactions that are essential for facilitating insurance services, which includes performing the necessary acts that brokers normally handle, such as discussing and analyzing coverage options with clients, providing quotes, and binding insurance contracts. This ability to perform normal broker acts is particularly important in ensuring that clients continue to receive the necessary services and guidance when a broker is unavailable, ensuring that the insurance process remains seamless. In contrast, simply confirming risk coverage, settling small claims, or completing applications are more limited or specific actions that do not encompass the broader responsibilities that a licensed employee can undertake in the absence of a broker. These tasks are parts of the overall insurance transaction process but do not fully capture the comprehensive role assigned to employees functioning in a broker's capacity.

**10. Which statement is FALSE regarding Section C of the Standard Policy Form (S.P.F. 1)?**

- A. Specified Perils covers named perils only**
- B. Comprehensive covers all risks subject to exclusions**
- C. All Perils covers all risks subject to exclusions**
- D. Collision or upset does not apply to vessels between Canada and the U.S.A**

The statement regarding the nature of collision or upset not applying to vessels traveling between Canada and the U.S.A is inaccurate because it misrepresents how insurance coverage operates for vessels under the standard policy. Specifically,, collision or upset refers to incidents where a vessel is damaged due to collision with another object or due to tipping or overturning. Generally, coverage for such incidents typically applies irrespective of the geographic boundaries unless explicitly restricted in the policy. In contrast, the other statements accurately portray the types of coverage. Specified Perils indeed covers only those named perils explicitly listed in the policy, providing limited protection. Comprehensive coverage, on the other hand, offers a broader scope by covering all risks of physical loss or damage, aside from those specifically excluded in the policy documentation. Finally, All Perils coverage extends similar comprehensive protections but holds certain exclusions as well, clearly defined in the terms of the policy. Each of these coverage types highlights different levels of risk protection that insurers provide within the framework of the Standard Policy Form.

## Next Steps

**Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.**

**As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.**

**If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at [hello@examzify.com](mailto:hello@examzify.com).**

**Or visit your dedicated course page for more study tools and resources:**

**<https://albertageneralinsurancelevel2.examzify.com>**

**We wish you the very best on your exam journey. You've got this!**

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