

# California Personal Lines Broker Practice Test (Sample)

## Study Guide



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**SAMPLE**

## **Questions**

- 1. What type of authority does a principal give an agent in writing?**
  - A. Implied warranty**
  - B. Express warranty**
  - C. Customary authority**
  - D. Apparent authority**
- 2. Which of the following would NOT be covered under Section II of Medical Payment to Others?**
  - A. A person injured on the insured's property with permission.**
  - B. The insured's family member not living on the property.**
  - C. The insured's pets injured on the insured's property.**
  - D. Someone who trips over a water hose on the insured's property.**
- 3. What does the term lapse refer to in an insurance context?**
  - A. A policy being terminated due to non-payment of premiums**
  - B. An insured person cancels their policy voluntarily**
  - C. A policy ceasing coverage on the expiration date**
  - D. Claim denial due to policy conditions**
- 4. What action could lead to an insurer being suspended from operation?**
  - A. Changing rates without prior approval**
  - B. Failing to file required reports timely**
  - C. Subsequent violation of a cease and desist order**
  - D. Implementing a new marketing strategy**
- 5. Which is excluded under Section I but covered under Section II of a homeowners policy?**
  - A. Animals, birds, or fish**
  - B. Firearms**
  - C. Hobby aircraft**
  - D. Ride on lawn mower**

- 6. What happens to an organization's license when it is dissolved?**
- A. The license is automatically renewed for one year**
  - B. The license is put on hold**
  - C. The license is forfeited**
  - D. The license is transferred to a successor**
- 7. Which of the following is a defense used against a claim for negligence?**
- A. Comparative negligence**
  - B. Strict liability**
  - C. Vicarious liability**
  - D. Actual damages**
- 8. In the event of a total loss, who is paid first according to a standard mortgage clause?**
- A. The insured**
  - B. Both the insured and lienholder equally**
  - C. The insurance agent**
  - D. The lienholder**
- 9. Which of the following is NOT a function of the California Worker's Compensation Inspection Rating Bureau (WCIRB)?**
- A. Provides statistics on worker's compensation**
  - B. Develops information about property and liability risk**
  - C. Inspects risks for classification or rate purposes**
  - D. Collects information for pure premium rates**
- 10. What kind of brokers are authorized to transact Special Surplus Lines?**
- A. General purpose brokers**
  - B. Licensed surplus line brokers**
  - C. Admitted insurers**
  - D. Independent brokers**

## **Answers**

SAMPLE

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

SAMPLE

## **Explanations**



**1. What type of authority does a principal give an agent in writing?**

- A. Implied warranty**
- B. Express warranty**
- C. Customary authority**
- D. Apparent authority**

The correct answer is express warranty because an express warranty is a clear, definitive promise made by the principal, typically documented in writing, granting specific authority to the agent. This type of authority is directly communicated and identifiable through a written contract or an explicit statement, which dictates what the agent is permitted to do on behalf of the principal. In contrast, other terms listed do not accurately describe the authority in question. Implied warranty usually refers to a guarantee that is not explicitly stated but understood to be part of the agreement—it's more about the quality or performance of a product than about granting authority. Customary authority refers to authority that is derived from the general practices in a particular industry, rather than from a specific written document. Apparent authority occurs when a third party believes an agent has authority based on the principal's representations, even if such authority has not formally been granted. Each of these options highlights different aspects of authority that do not fit the context of a formal, written directive from a principal to an agent.

**2. Which of the following would NOT be covered under Section II of Medical Payment to Others?**

- A. A person injured on the insured's property with permission.**
- B. The insured's family member not living on the property.**
- C. The insured's pets injured on the insured's property.**
- D. Someone who trips over a water hose on the insured's property.**

Medical Payments to Others is a section in homeowners' insurance policies that provides coverage for medical expenses incurred by guests who are injured on the insured's property, regardless of fault. This coverage is generally meant for injuries to people rather than property or pets. The correct option indicates that pets are not covered under this section. This is accurate because Medical Payments to Others specifically applies to people and does not extend to animals. Agreed upon by most homeowners' insurance policies, injuries to pets do not qualify for medical payments under this provision; rather, they are typically governed by other sections of a policy that cover personal property or liability. In contrast, the other scenarios provided involve human guests or visitors who can be considered under this section. A person injured on the insured's property with permission, a family member not living on the property, and someone who trips over a water hose all fall under the definition of guests or visitors and would thus be eligible for medical payment coverage. This delineation is essential in understanding the limitations of the Medical Payments to Others section in a homeowners' insurance policy.

### **3. What does the term lapse refer to in an insurance context?**

- A. A policy being terminated due to non-payment of premiums**
- B. An insured person cancels their policy voluntarily**
- C. A policy ceasing coverage on the expiration date**
- D. Claim denial due to policy conditions**

In an insurance context, the term "lapse" specifically refers to a policy being terminated due to non-payment of premiums. When a policyholder fails to make the required premium payments by the due date, the insurance company may let the policy lapse, resulting in the loss of coverage. This situation highlights the importance of maintaining timely payments to ensure ongoing protection through the insurance policy. The other options represent different scenarios in the insurance realm but do not accurately define a lapse. For example, voluntary cancellation of a policy by the insured would not be classified as a lapse; rather, it is an active decision made by the policyholder. Similarly, a policy ceasing coverage on the expiration date is a natural conclusion of the policy term, not a lapse. Lastly, claim denial due to specific policy conditions refers to the circumstances under which a claim may be rejected, which is unrelated to the termination of a policy due to unpaid premiums.

### **4. What action could lead to an insurer being suspended from operation?**

- A. Changing rates without prior approval**
- B. Failing to file required reports timely**
- C. Subsequent violation of a cease and desist order**
- D. Implementing a new marketing strategy**

An insurer can face suspension from operation for the subsequent violation of a cease and desist order. A cease and desist order is a directive issued by a regulatory authority, such as the Department of Insurance, which requires the insurer to stop certain practices that are deemed unlawful or unfair. If the insurer fails to comply with this order, it demonstrates a disregard for regulatory authority and can be seen as a serious violation of law. The purpose of such orders is to protect policyholders and maintain the integrity of the insurance market. Consequently, violating these orders can result in severe penalties, including suspension of the insurer's operational license. In contrast, while changing rates without prior approval and failing to file required reports timely can lead to administrative penalties, they may not be as immediate or severe as a violation of a cease and desist order. Furthermore, implementing a new marketing strategy is typically within the company's discretion and does not normally lead to sanctions unless it involves illegal practices or breaches existing regulations. Therefore, the violation of a cease and desist order stands out as a critical action that can directly compromise an insurer's ability to operate legally.

**5. Which is excluded under Section I but covered under Section II of a homeowners policy?**

**A. Animals, birds, or fish**

**B. Firearms**

**C. Hobby aircraft**

**D. Ride on lawn mower**

Animals, birds, or fish are indeed excluded under Section I of a homeowners policy but covered under Section II. Section I typically addresses property coverage, which means that personal property such as pets or animals is not insured. This exclusion exists because typical homeowners insurance is not designed to cover pets due to the potential for liability claims arising from pet ownership. However, under Section II, which deals with liability coverage, homeowners insurance can offer coverage for injuries or damages caused by pets. This means that while animals themselves (like dogs or cats) aren't covered as personal property, any liability that may arise from their actions is addressed in this section. The other items mentioned do not fit this pattern: firearms are generally covered under property coverage but could have restrictions based on certain policy provisions; hobby aircraft are usually excluded from homeowners policies; ride-on lawn mowers, while they may have some coverage under certain circumstances, do not follow the same pattern as animals. Therefore, animals, birds, or fish stand out as the correct choice since they align with the specific exclusions in Section I and the coverage offered under Section II.

**6. What happens to an organization's license when it is dissolved?**

**A. The license is automatically renewed for one year**

**B. The license is put on hold**

**C. The license is forfeited**

**D. The license is transferred to a successor**

When an organization is dissolved, its license is forfeited. This means that the legal authority to operate and engage in activities that the license covered is terminated. Licenses are issued based on the functioning entity, and when the organization no longer exists, there is no entity to hold the license. Thus, forfeiture is a necessary consequence of the dissolution, as the regulatory body responsible for the licensing cannot have an inactive or nonexistent entity operating under its jurisdiction. The other choices present inaccurate scenarios. A license cannot be automatically renewed for an additional period following dissolution because the entity is no longer in existence to request or meet renewal conditions. Placing the license on hold would imply the organization still exists in some form, which is not the case in a complete dissolution. Transferring the license to a successor would also not occur because the original entity has ceased to function; licenses typically cannot be transferred without the involved entity actively operating and meeting specific criteria.

**7. Which of the following is a defense used against a claim for negligence?**

**A. Comparative negligence**

**B. Strict liability**

**C. Vicarious liability**

**D. Actual damages**

Comparative negligence is a legal doctrine that is utilized as a defense against claims of negligence. It operates on the premise that if the injured party is also partially at fault for the incident that led to their injuries, their compensation may be reduced proportionally to their degree of fault. For instance, if a plaintiff is found to be 20% responsible for their injuries, their damages award would be decreased by that percentage. This method acknowledges the shared responsibility of both parties and encourages fairness in resolving negligence claims. In contrast, strict liability does not require proof of negligence or fault; it is applicable in cases involving inherently dangerous activities. Vicarious liability pertains to holding one party responsible for the actions of another, often in employer-employee relationships, without the need to demonstrate direct negligence on the part of the employer. Actual damages refer to the real and quantifiable losses incurred due to negligence, but are not a defense against a negligence claim. Instead, they clarify what compensation is sought in a negligence case.

**8. In the event of a total loss, who is paid first according to a standard mortgage clause?**

**A. The insured**

**B. Both the insured and lienholder equally**

**C. The insurance agent**

**D. The lienholder**

In the context of a total loss in a property insurance claim, the mortgage clause is designed to protect the financial interests of the lienholder, which is typically the lender or bank that holds the mortgage on the property. According to the standard mortgage clause, when a total loss occurs, the first party to be compensated is the lienholder. This means that any insurance payout will primarily go towards satisfying the mortgage debt before any funds are distributed to the insured. The rationale for this is that the lienholder has a vested interest in the property as collateral for the loan. If the property is declared a total loss, the lienholder needs to ensure that their financial investment is recouped to some extent. Once the lienholder's claim is addressed, any remaining funds would then be available for the insured. This prioritization is crucial in maintaining the integrity of lending practices and ensuring that lenders are not left with potential losses due to property damage.

**9. Which of the following is NOT a function of the California Worker's Compensation Inspection Rating Bureau (WCIRB)?**

- A. Provides statistics on worker's compensation**
- B. Develops information about property and liability risk**
- C. Inspects risks for classification or rate purposes**
- D. Collects information for pure premium rates**

The California Worker's Compensation Inspection Rating Bureau (WCIRB) primarily focuses on issues related to worker's compensation insurance rather than property and liability risks. The bureau provides essential services such as developing and maintaining the classification system for workers' compensation insurance, collecting statistical data, and recommending pure premium rates for the industry. This makes option B the correct choice, as it describes a function that is outside the purview of the WCIRB. In context, the other options are indeed functions of WCIRB. The bureau gathers and provides statistics on workers' compensation claims and costs, which helps in understanding trends and setting rates. It also engages in inspecting insurance risks to classify them appropriately and determine suitable rates. By collecting data for pure premium rates, it assists in calculating how much employers should pay based on their specific circumstances related to worker injuries and related risks. Thus, option B stands out as not fitting the core functions of the WCIRB.

**10. What kind of brokers are authorized to transact Special Surplus Lines?**

- A. General purpose brokers**
- B. Licensed surplus line brokers**
- C. Admitted insurers**
- D. Independent brokers**

Licensed surplus line brokers are specifically authorized to engage in transactions involving Special Surplus Lines. These brokers operate within a distinct regulatory framework that allows them to place business with non-admitted insurers—those that are not licensed in the state but can provide coverage for risks that admitted insurers cannot or choose not to cover. Surplus lines insurance often involves unique or high-risk situations, such as providing coverage for rare or unconventional properties, specialized types of liability, or insuring particular business sectors. Licensed surplus line brokers must complete additional training and maintain specific licensure to navigate these complexities and ensure compliance with both state regulations and the unique requirements of surplus lines insurance. In contrast, general-purpose brokers may not have the specialized licensing required to operate in this niche market, and admitted insurers typically provide coverage through licensed companies that must adhere to strict regulatory standards. Independent brokers can operate in various capacities and may not possess the necessary qualifications to transact in surplus lines without being specifically licensed for that purpose. Thus, the distinction is critical in understanding the regulatory environment surrounding surplus lines transactions.