

CII INSURANCE LAW (M05) PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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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. How can the relationship between principal and agent arise?**
 - A. By agreement, by speculation, or by intention
 - B. By agreement, ratification, or necessity
 - C. By agreement, extension, or agency
 - D. By agreement, remittance, or necessity
- 2. Why does an insured have a duty to disclose facts to the insurer?**
 - A. To avoid legal repercussions
 - B. Because the insurer relies on the information provided
 - C. To ensure all family members are covered
 - D. To expedite the insurance process
- 3. What is the definition of privity of contract?**
 - A. A principle that allows third parties to sue for breach of contract
 - B. A doctrine restricting rights and duties of a contract to original parties
 - C. A law that allows revocation of contracts
 - D. A rule requiring written contracts for enforceability
- 4. How does the duty of good faith apply to employers' liability insurance?**
 - A. It is limited to certain types of insurance
 - B. It applies differently than to other insurance types
 - C. It applies equally as it does to non-consumer insurances
 - D. It is not applicable at all
- 5. Which clause in an insurance policy allows the insurer to deny a claim if the insured has another insurance policy on the same risk?**
 - A. Exclusion clause
 - B. Escape clause
 - C. Limitation clause
 - D. Subrogation clause
- 6. When can an agent legally delegate contractual duties to a sub-agent?**
 - A. Only with the principal's explicit permission
 - B. In accordance with trade custom and necessity
 - C. When the primary contract is vague
 - D. Whenever the agent sees fit

- 7. Which element is essential for establishing a persuasive precedent in court?**
- A. A decision made solely by a non-expert
 - B. A decision that is followed by subsequent courts
 - C. A decision that is never overturned
 - D. A decision made only in a higher court
- 8. What does the law of agency primarily deal with?**
- A. Commercial transactions only
 - B. Relationships involving agents and principals creating legal relations
 - C. Property ownership and transfer
 - D. Civil rights and contracts
- 9. What should a company do when it is aware of material facts before an insurance contract?**
- A. Disclose the facts to the insurer
 - B. Keep the information confidential
 - C. Wait for the insurer to discover them
 - D. Only disclose if asked by the insurer
- 10. What is the main purpose of an excess in an insurance policy?**
- A. To determine the limit of coverage.
 - B. To reduce the premiums paid by the insured.
 - C. To establish the threshold for a claim payout.
 - D. To define the duration of the policy.

Answers

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

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Explanations

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1. How can the relationship between principal and agent arise?

- A. By agreement, by speculation, or by intention
- B. By agreement, ratification, or necessity**
- C. By agreement, extension, or agency
- D. By agreement, remittance, or necessity

The relationship between principal and agent primarily arises through three mechanisms: agreement, ratification, and necessity. Agreement is foundational; it refers to the explicit or implicit contract formed when one party (the principal) authorizes another party (the agent) to act on their behalf in business dealings. This consent can be communicated verbally, in writing, or inferred from conduct. Ratification occurs when a principal approves a previously unauthorized act carried out by an agent. This retroactive validation transforms the unauthorized action into an approved one, effectively establishing the principal-agent relationship post-facto. Finally, necessity refers to situations where an agent must act to protect the principal's interests, even in the absence of a prior agreement. This can arise in emergencies where waiting for the principal's approval could result in loss or damage. The other options do not align with the traditional principles governing agency relationships. Speculation, extension, and remittance do not accurately describe the establishment of principal-agent relationships in legal terms. Thus, the correct answer encapsulates the recognized foundations of how such relationships are formed.

2. Why does an insured have a duty to disclose facts to the insurer?

- A. To avoid legal repercussions
- B. Because the insurer relies on the information provided**
- C. To ensure all family members are covered
- D. To expedite the insurance process

The duty of an insured to disclose facts to the insurer is fundamentally based on the principle of utmost good faith, or "uberrima fides," which underpins insurance contracts. The insured is required to provide all material information that might influence the insurer's decision-making process in evaluating the risk associated with providing coverage. This includes any facts that might affect the terms of the insurance contract, including premiums and conditions of coverage. When the insurer assesses an application for coverage, it relies heavily on the accurate and complete information provided by the insured. If the insured fails to disclose relevant facts, it could lead to an improper evaluation of the risk, resulting in inappropriate pricing of the insurance policy or even the denial of a claim later on. The relationship between the insurer and the insured is thus built on trust; the insurer trusts that the insured is being forthright about their circumstances. Considering this context, the idea that the insurer relies on the information provided is paramount. The disclosure of facts is not just a formal requirement but is crucial for the insurer to make an informed decision, ensuring that the risk is adequately assessed and managed.

3. What is the definition of privity of contract?

- A. A principle that allows third parties to sue for breach of contract
- B. A doctrine restricting rights and duties of a contract to original parties**
- C. A law that allows revocation of contracts
- D. A rule requiring written contracts for enforceability

The principle of privity of contract refers to the doctrine that restricts the rights and obligations arising from a contract to the original parties involved in the agreement. This means that only those who have entered into the contract can enforce its terms or be held liable for breaches. In essence, it establishes that a third party, who did not participate in the contract formation, typically has no legal standing to make claims or seek enforcement of the contract. The nature of contracts is inherently relational; the parties have specifically agreed to certain terms and conditions, and the legal consequences of these agreements primarily affect only those directly involved. This doctrine is foundational in contract law, ensuring that contracts are honored and that parties are protected from obligations they did not consent to. While some legal frameworks have evolved to provide certain rights to third parties under specific circumstances (such as reform acts or notable exceptions), the fundamental definition of privity of contract remains focused on the insulation of contract rights and duties to the parties who are signatories to the agreement.

4. How does the duty of good faith apply to employers' liability insurance?

- A. It is limited to certain types of insurance
- B. It applies differently than to other insurance types
- C. It applies equally as it does to non-consumer insurances**
- D. It is not applicable at all

The duty of good faith in employers' liability insurance is an essential principle that governs the relationship between the insurer and the insured. This principle mandates that both parties act honestly and fairly towards each other, ensuring that neither party engages in deceptive practices or fails to disclose vital information that could affect the insurance contract. In the context of employers' liability insurance, the duty of good faith applies equally as it does to non-consumer insurances. This means that employers and insurers are both held to the same standard of good faith conduct, regardless of whether the insurance is for consumers or businesses. This uniformity helps maintain trust in the insurance industry and provides a foundation for resolving disputes, ensuring that claims are handled fairly and in accordance with the terms of the policy. Understanding this duty is crucial for both employers and insurers, as it influences how claims are managed and how potential disputes may be approached in the context of liability for workplace injuries.

5. Which clause in an insurance policy allows the insurer to deny a claim if the insured has another insurance policy on the same risk?

- A. Exclusion clause
- B. Escape clause**
- C. Limitation clause
- D. Subrogation clause

The correct answer is the escape clause. An escape clause in an insurance policy provides that if the insured has another policy covering the same risk, the insurer can deny a claim. This clause is designed to protect the insurer from paying out more than they believe is appropriate when multiple policies might cover the same loss. In the context of insurance, having overlapping coverage can lead to challenges in determining liability and the amount payable for a claim. The escape clause ensures that situations involving multiple insurers do not lead to double compensation or disputes regarding who is responsible for a loss. The other clauses mentioned serve different purposes: - An exclusion clause specifies certain conditions or risks that are not covered by the policy. - A limitation clause sets restrictions on the amount payable or the circumstances under which the insurer will pay. - A subrogation clause allows the insurer to recover costs from a third party responsible for a loss after they have paid the insured. These distinctions highlight the specific function of the escape clause in managing situations where multiple policies could apply to the same loss.

6. When can an agent legally delegate contractual duties to a sub-agent?

- A. Only with the principal's explicit permission
- B. In accordance with trade custom and necessity**
- C. When the primary contract is vague
- D. Whenever the agent sees fit

The correct answer is that an agent can legally delegate contractual duties to a sub-agent in accordance with trade custom and necessity. This means that if the practices in a particular industry or market commonly support the delegation of certain tasks to sub-agents, an agent may do so without needing explicit permission each time from the principal. This delegation is often guided by the standards of practice that are recognized and accepted within that trade. The concept of necessity also plays a pivotal role in allowing delegation, where situations arise that require the agent to act promptly, and a sub-agent is a practical solution to fulfill the obligations contained within the contract. This typical understanding helps maintain the efficiency and effectiveness of business operations. In contrast, the need for explicit permission by the principal is not a requirement in cases where customs support delegation; hence, the option about needing explicit permission is less applicable. The idea that an agent can delegate when the primary contract is vague misinterprets the nature of delegation, which relies more heavily on established customs rather than ambiguity in contractual terms. Finally, the notion that an agent can delegate "whenever they see fit" overlooks the importance of customary practices and the necessity of fulfilling a principal's expectations and obligations.

7. Which element is essential for establishing a persuasive precedent in court?

- A. A decision made solely by a non-expert
- B. A decision that is followed by subsequent courts**
- C. A decision that is never overturned
- D. A decision made only in a higher court

The correct answer highlights the importance of how decisions are treated in the legal system. A decision that is followed by subsequent courts is essential for establishing a persuasive precedent because it demonstrates the acceptance of that decision by the legal community. This acceptance indicates that the judgment has foundational quality and credibility, which encourages present and future courts to adhere to the principles established within it. When a court decision is respected and utilized by other courts, it reflects its relevance and validity in application to similar cases, thereby reinforcing its status as persuasive precedent. This aspect underscores the principle of consistency and stability in the law, which is crucial for the predictability of legal outcomes. Conversely, while it is beneficial for a decision to be made by a higher court, this alone does not ensure persuasive precedent unless subsequent courts follow that decision. Hence, the ongoing use and reference to a decision solidify its persuasive value in the legal system.

8. What does the law of agency primarily deal with?

- A. Commercial transactions only
- B. Relationships involving agents and principals creating legal relations**
- C. Property ownership and transfer
- D. Civil rights and contracts

The law of agency primarily deals with relationships involving agents and principals creating legal relations. This area of law defines how one party, the agent, is empowered to act on behalf of another party, the principal. The agent is authorized to carry out specific actions or make decisions that legally bind the principal within the scope of their agreement. This legal framework is crucial in numerous contexts, notably in business, where agents can enter into contracts, negotiate deals, or manage various affairs for the principal. The relationship is built on trust and the understanding that the agent will act in the best interest of the principal, thereby creating a legal obligation that can have significant implications for both parties. Other choices, such as commercial transactions, property ownership, and civil rights, do not accurately capture the essence of the law of agency as they represent different legal concepts. While commercial transactions may involve agency relationships, they do not encompass the broader principles of authority and fiduciary responsibility inherent in the law of agency. Similarly, property ownership and transfer focus on the rights associated with owning property, and civil rights and contracts pertain to individual rights and contractual agreements, respectively, rather than the specific dynamics of agent-principal relationships.

9. What should a company do when it is aware of material facts before an insurance contract?

- A. Disclose the facts to the insurer**
- B. Keep the information confidential
- C. Wait for the insurer to discover them
- D. Only disclose if asked by the insurer

When a company is aware of material facts before entering into an insurance contract, it is imperative for it to disclose those facts to the insurer. This obligation is rooted in the principle of utmost good faith, also known as "uberrima fides," which governs insurance contracts. This principle requires both parties to act honestly and not withhold information that could influence the decision-making process of the other party. Specifically, material facts are those that would affect the insurer's assessment of risk or the premium to be charged. Failing to disclose such material facts could lead to the insurer either mispricing the policy or potentially offering coverage that they would not have provided had they been fully informed. If undisclosed material facts are later discovered, the insurer may have grounds to void the contract or refuse claims based on misrepresentation or non-disclosure. The other options—keeping the information confidential, waiting for the insurer to discover the facts, or disclosing only if asked—do not align with the legal and ethical obligations inherent in the insurance relationship. They potentially put the company at risk of breaching the contract, which could lead to severe repercussions, including denial of coverage or claims. Therefore, disclosing material facts is the correct course of action to ensure transparency and maintain

10. What is the main purpose of an excess in an insurance policy?

- A. To determine the limit of coverage.
- B. To reduce the premiums paid by the insured.
- C. To establish the threshold for a claim payout.**
- D. To define the duration of the policy.

The main purpose of an excess in an insurance policy is to establish the threshold for a claim payout. This is the amount of money that the insured agrees to pay out of pocket before the insurance coverage kicks in and the insurer begins to pay for the remaining costs of a claim. By having an excess, both the insured and the insurer can manage risk; the insured is incentivized to avoid small claims, while the insurer reduces the number of minor claims they have to process. In contexts where the excess is applied, the insured must bear a portion of the financial responsibility, which allows the insurer to keep premiums lower for the policyholder, as it reduces the insurer's liability exposure. Therefore, this mechanism also serves to provide a balance between coverage and self-financed risk for the insured, acting as a cost-control measure for both parties involved in the insurance agreement. Thus, having an excess defined in a policy is fundamental in determining when and how much the insurer will start paying on claims made by the insured.

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.

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

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

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