Georgia State Government Employees Insurance Company (GEICO) Licensing Practice Test (Sample)

Study Guide

Everything you need from our exam experts!

Questions

1. **Which of the following is NOT a legal defense against negligence?**
   - A. Contributory Negligence
   - B. Statute of Limitations
   - C. Strict Liability
   - D. Comparative Negligence

2. **What is one of the primary duties after an occurrence in an insurance policy?**
   - A. Notify the local police of the incident
   - B. Give written notice to the insurer as soon as practical
   - C. Settle the claim with the injured party
   - D. Ignore the incident to avoid liability

3. **What is an example of an event that the insurer is expected to respond to according to the insuring agreement?**
   - A. Providing health coverage for injuries
   - B. Making payments for incurred damages from a covered loss
   - C. Conducting investigations into possible fraud
   - D. Setting premiums based on risk levels

4. **Which coverage type utilizes an insured limit for each item specified?**
   - A. Actual Cash Value
   - B. Agreed Value
   - C. Stated Amount/Stated Value
   - D. Replacement Cost

5. **Which term indicates the total money the insurer expects to earn from a policy over its term?**
   - A. Deposit premium
   - B. Written premium
   - C. Unearned premium
   - D. Adverse premium

6. In the context of coinsurance, how is the insurer's payment calculated?

- **A. By a percentage of the total value**
- **B. By the deductible amount alone**
- **C. DID/SHOULD X Loss**
- **D. Flat rate per incident**

7. Salvage value represents what in property valuation?

- **A. The potential resale value of damaged property**
- **B. The cost to repair damaged property**
- **C. The current market price of the property**
- **D. The value of property that is no longer useful**

8. What is the definition of consequential loss in insurance terms?

- **A. The same as direct loss**
- **B. The same as indirect loss**
- **C. An unexpected financial gain**
- **D. A loss that occurs due to a preceding event**

9. What role do enumerated segments of business play for insurers?

- **A. They simplify the underwriting process**
- **B. They help in predicting accurate losses**
- **C. They diversify the risk and enable survival during losses**
- **D. They increase the complexity of policies**

10. Which of the following terms is NOT a recognized acronym in the insurance industry according to the test?

- **A. CAU**
- **B. CML**
- **C. CPA**
- **D. NAR**

Answers

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

Explanations

1. Which of the following is NOT a legal defense against negligence?

- A. Contributory Negligence
- B. Statute of Limitations
- **C. Strict Liability**
- D. Comparative Negligence

Strict liability is characterized by a legal framework where a party is held responsible for damages or injury caused by their actions or products, regardless of fault or negligence. This means that in strict liability cases, the defendant can be held liable even if they took all possible precautions to prevent harm. Since strict liability does not require a finding of negligence or fault, it does not serve as a defense against negligence claims. In contrast, contributory negligence, statute of limitations, and comparative negligence are all recognized defenses in negligence cases. Contributory negligence may diminish or eliminate a plaintiff's ability to recover damages if they are found to be at fault to any degree. The statute of limitations sets a time limit on when a lawsuit can be filed, serving as a barrier if the claim is not brought within that time frame. Finally, comparative negligence allows for the apportioning of fault between the parties, enabling the plaintiff to recover damages even if they share some degree of responsibility for the injury. Thus, identifying strict liability as not being a legal defense against negligence aligns with the understanding that it operates under a different principle of liability, focusing on the nature of the activity or product rather than the behavior of the party involved.

2. What is one of the primary duties after an occurrence in an insurance policy?

- A. Notify the local police of the incident
- **B. Give written notice to the insurer as soon as practical**
- C. Settle the claim with the injured party
- D. Ignore the incident to avoid liability

One of the primary duties after an occurrence in an insurance policy is to give written notice to the insurer as soon as practical. This duty is essential as it ensures that the insurance company is informed of the event promptly, allowing them to begin their investigation and assessment of the claim. Prompt notification helps protect the insured's rights under the policy and allows the insurer to fulfill its obligation to provide coverage and assistance. Insurance policies typically contain clauses that establish timelines for notifying the insurer, which can directly impact the claim process. Failure to provide timely notice could result in complications or even denial of the claim due to perceived negligence in notifying the insurer. Hence, the emphasis on notifying the insurance company as soon as possible reflects the need for quick action to facilitate the claims process and ensure that all parties are aware of the situation. In comparison, notifying local police, settling a claim directly with the injured party, or ignoring the incident are not standard primary duties outlined in insurance policies. While notifying authorities might be necessary in certain circumstances, it is generally the insured's responsibility to inform the insurance company first. Settling claims independently could jeopardize the coverage provided by the insurance policy, and ignoring the incident would certainly lead to complications and potential losses in terms of coverage.

3. What is an example of an event that the insurer is expected to respond to according to the insuring agreement?

A. Providing health coverage for injuries

B. Making payments for incurred damages from a covered loss

C. Conducting investigations into possible fraud

D. Setting premiums based on risk levels

The insuring agreement in an insurance policy outlines the obligations of the insurer and the events to which the insurer will respond. In this context, making payments for incurred damages from a covered loss is a primary function of insurance. When a policyholder experiences a covered incident, such as an accident or damage to property, the insurer is legally and contractually obligated to compensate for the financial loss up to the limits specified in the policy. This response forms the basis of the insurance contract, where the insured pays premiums in exchange for the promise of coverage. Therefore, when a claim is made for damages that fall within the parameters of the policy, the insurer's duty to pay is a direct and fundamental expectation, exemplifying the core purpose of insurance.

4. Which coverage type utilizes an insured limit for each item specified?

A. Actual Cash Value

B. Agreed Value

C. Stated Amount/Stated Value

D. Replacement Cost

The correct choice is Stated Amount/Stated Value. This type of coverage sets a specific dollar amount for each item that is outlined in the insurance policy. When an item is insured at a stated value, that value is the maximum amount the insurer will pay in the event of a total loss of that item. This coverage is particularly useful for unique or high-value items, as it allows policyholders to have clearer expectations regarding their compensation in the event of a loss. In addition to defining the insured limit for each item, Stated Amount/Stated Value can also help ensure that the item is sufficiently covered, minimizing the gap between actual value and coverage limits. This approach contrasts with other coverage types that do not provide the same specificity or may have different mechanisms for determining payouts based on item value.

5. Which term indicates the total money the insurer expects to earn from a policy over its term?

A. Deposit premium

B. Written premium

C. Unearned premium

D. Adverse premium

The term that indicates the total money the insurer expects to earn from a policy over its term is known as written premium. This represents the total amount of premium that an insurance company has underwritten during a specific period, which is essentially the income the insurer expects to receive from policyholders in exchange for coverage. Written premium captures the full premium amount for all policies issued within a given time frame, regardless of how much of that premium has already been earned or is still outstanding. This is important for the insurer as it reflects projected revenue, which aids in financial forecasting and reserving for claims. The other terms are related to different aspects of premium management. For example, unearned premium refers to the portion of the premium that has not yet been earned because the coverage period has not yet expired. Deposit premium is typically a preliminary amount paid at the start of coverage that may be adjusted later. Adverse premium is not a standard term in insurance contexts and does not relate to expected earnings from a policy. This contrasts with written premium, which accurately encapsulates the expected income from an insurance policy throughout its lifecycle.

6. In the context of coinsurance, how is the insurer's payment calculated?

A. By a percentage of the total value

B. By the deductible amount alone

C. DID/SHOULD X Loss

D. Flat rate per incident

In the context of coinsurance, the insurer's payment is determined using the formula DID/SHOULD X Loss, where DID represents the amount of insurance carried (or the insured value), SHOULD refers to the amount of insurance that should have been carried according to the coinsurance requirement, and Loss is the amount of the loss incurred. This calculation is vital because it ensures that policyholders maintain a minimum amount of coverage in relation to the value of the property insured. If the insured amount is less than the required amount, the payout will be reduced proportionally. This mechanism incentivizes policyholders to insure their properties adequately to avoid penalties in the form of diminished claims when losses occur. Thus, this formula captures the essence of coinsurance by linking the payout directly to the coverage that aligns with the actual loss incurred, promoting equitable sharing of risk between the insurer and insured.

7. Salvage value represents what in property valuation?

A. The potential resale value of damaged property

B. The cost to repair damaged property

C. The current market price of the property

D. The value of property that is no longer useful

Salvage value in property valuation refers to the estimated residual value that an owner can expect to obtain from an asset at the end of its useful life or when it is no longer useful to the business or owner. This concept is used to determine how much an asset may be worth after it has been used, considering factors like wear and tear or damage. Essentially, it is the anticipated return that can be gleaned from the asset once it is disposed of, sold for parts, or deemed unfit for its original purpose. In the context of property valuation, this value is crucial for calculating depreciation and understanding the potential financial return on investment over time. It gives insight into how much value can still be captured from an asset that has reached the end of its effective lifespan or usability. The other options don't accurately capture the idea of salvage value, as they either refer to specific conditions related to repair costs or market prices, rather than the residual value of an asset that is no longer functional.

8. What is the definition of consequential loss in insurance terms?

A. The same as direct loss

B. The same as indirect loss

C. An unexpected financial gain

D. A loss that occurs due to a preceding event

Consequential loss in insurance terms refers to a loss that occurs as a result of a preceding event, typically as a consequence of direct damage to property or an incident. This type of loss is often indirect and is not immediately connected to the primary event, such as loss of income when a business cannot operate due to property damage. It captures the broader financial impact that follows an initial loss, distinguishing it from direct loss which refers to the immediate damage to the property itself. Understanding consequential loss is crucial for businesses as it affects not only the property damage costs but also the potential long-term financial implications following an adverse event.

9. What role do enumerated segments of business play for insurers?

A. They simplify the underwriting process

B. They help in predicting accurate losses

C. They diversify the risk and enable survival during losses

D. They increase the complexity of policies

Enumerated segments of business hold significant importance for insurers primarily because they help to diversify risk. By dividing risks into different segments, insurers can spread their exposure across various categories, such as different types of businesses or industries. This diversification is a critical strategy in risk management, allowing insurers to avoid heavy losses stemming from specific segments that may experience claims. When an insurer has a portfolio comprising various enumerated segments, the impact of a loss in one area can be offset by the performance of others. This approach not only enhances the overall stability and sustainability of the insurance company during financially challenging periods but also contributes to maintaining lower premiums for policyholders. The other choices relate to aspects of risk management and policy structuring but do not directly highlight the primary advantage of enumerated segments in relation to risk diversification. Hence, while they may simplify underwriting or assist in predicting losses, the most crucial role they play is in facilitating a diversified risk profile, which is essential for long-term survival in the insurance market.

10. Which of the following terms is NOT a recognized acronym in the insurance industry according to the test?

A. CAU

B. CML

C. CPA

D. NAR

In the insurance industry, acronyms serve as shorthand for various concepts, organizations, or terms that are widely recognized and used by professionals. The correct answer indicates that "CAU" is not a recognized acronym in the insurance sector. "CPA," for example, commonly stands for Certified Public Accountant, which is related to financial and accounting practices frequently encountered in insurance contexts. Similarly, "CML" can refer to Commercial Mortgage Lending or other financial terms that are relevant in underwriting and policy development processes in insurance. "NAR" typically refers to the National Association of Realtors, an organization that interacts frequently with insurance through property transactions and real estate dealings. This understanding highlights the recognized nature and relevance of the other acronyms to the industry, while "CAU" does not hold a recognized status, making it the correct identification as not fitting into the group of relevant industry acronyms.