

# Hawaii Adjusters Practice Test (Sample)

## Study Guide



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**SAMPLE**

## **Questions**

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- 1. How are workers' compensation premiums primarily determined?**
  - A. By the industry classification of the employer**
  - B. By total asset value**
  - C. By employee payroll**
  - D. By claim history of the employer**
- 2. If there were other existing insurance, how will coverage under crime insurance be affected?**
  - A. Fully Covered**
  - B. Pro Rated**
  - C. No Coverage**
  - D. Cancelled**
- 3. In addition to assessing property damage, what else should be documented during an inspection?**
  - A. The adjuster's previous experiences**
  - B. The feelings of the insured**
  - C. Conditions leading up to the incident**
  - D. Only the most severe damages**
- 4. What is the main purpose of an insurance reserve?**
  - A. To adjust premiums for high-risk clients**
  - B. To accumulate funds for marketing strategies**
  - C. To set aside funds for future claims and potential payouts**
  - D. To invest in profitable ventures for the insurance company**
- 5. Which of the following is a requirement for a foreign or alien insurer to operate in Hawaii?**
  - A. Must have local headquarters**
  - B. Must have transacted business for 5 years**
  - C. Must hold special permits**
  - D. Must have a local agent**

- 6. In an insurance policy, what are "exclusions"?**
- A. Specific conditions or circumstances covered under the policy**
  - B. Amendments made to increase coverage**
  - C. Specific conditions or circumstances that are not covered by the policy**
  - D. General terms of the policy document**
- 7. What is the difference between an independent adjuster and a public adjuster?**
- A. An independent adjuster works for the government, while a public adjuster works for the insurer**
  - B. An independent adjuster works for an insurance company, while a public adjuster advocates for the policyholder**
  - C. A public adjuster helps insurers, while an independent adjuster helps policyholders**
  - D. There is no difference; both serve the same purpose**
- 8. What does personal property insurance protect against?**
- A. Lost income due to theft**
  - B. Personal belongings from loss or damage**
  - C. Liability for injuries on premises**
  - D. Medical expenses incurred by guests**
- 9. Who should receive a cancellation notice when a policyholder is deemed a poor commercial risk?**
- A. Only the individual whose name appears first on the policy**
  - B. All individuals listed under the policy**
  - C. The policyholder only**
  - D. The insurance agent handling the policy**
- 10. Which types of damages are generally covered by liability insurance?**
- A. Property damage and personal injury**
  - B. Bodily injury and property damage**
  - C. Emotional distress and punitive damages**
  - D. Loss of income and legal fees**

## **Answers**

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

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## **Explanations**

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**1. How are workers' compensation premiums primarily determined?**

- A. By the industry classification of the employer**
- B. By total asset value**
- C. By employee payroll**
- D. By claim history of the employer**

Workers' compensation premiums are primarily determined by employee payroll because the amount of coverage required is closely tied to the total wages paid to employees. An employer with a larger payroll typically has greater exposure to potential claims simply due to having more employees, thereby increasing the likelihood of work-related injuries or incidents. Therefore, insurance companies assess the payroll figures to calculate the premium, applying the appropriate rates based on industry risk classification and other factors as necessary. While factors like industry classification, claim history, and asset value can influence the overall premium or the risk assessment, it is the payroll that serves as the primary basis for calculating the actual cost of workers' compensation insurance. The premium represents a percentage of the total payroll for employees classified based on the risk levels of their jobs within that industry. Thus, understanding payroll as the foundation for premium calculation is essential for employers managing their workers' compensation costs.

**2. If there were other existing insurance, how will coverage under crime insurance be affected?**

- A. Fully Covered**
- B. Pro Rated**
- C. No Coverage**
- D. Cancelled**

In the context of crime insurance, the presence of other existing insurance policies can lead to a pro-rata allocation of coverage. This means that if multiple policies cover the same risk, the crime insurance policy will pay out only a portion of the claim, proportional to its coverage limits compared to the total coverage available across all policies. Pro-rating ensures that the insured does not receive a windfall from multiple insurance payouts for the same loss, adhering to the principle of indemnity in insurance. The goal is to make the insured whole without allowing them to profit from the situation, which is a fundamental principle in the insurance industry. This pro-rata approach helps manage the risk for the insurer as well, preventing excessive payouts that could arise if one policy were to cover the entire loss when there are several policies in effect. In this way, the coverage under crime insurance is balanced and fairly distributed according to the available insurance, leading to a fair settlement process for all parties involved.

**3. In addition to assessing property damage, what else should be documented during an inspection?**

- A. The adjuster's previous experiences**
- B. The feelings of the insured**
- C. Conditions leading up to the incident**
- D. Only the most severe damages**

Documenting the conditions leading up to the incident is crucial during an inspection because it provides context for the damage that has occurred. Understanding the circumstances surrounding an event, such as weather conditions, maintenance history, or any actions taken just prior to the incident, can significantly impact the assessment of the claim. This information helps to establish a timeline and can help determine if the damage was influenced by factors such as pre-existing conditions or negligence. Additionally, documenting these conditions can aid in identifying patterns or trends related to similar claims, which can be invaluable for underwriting and risk assessment. By capturing a comprehensive picture that includes the background of the incident, an adjuster can make more informed decisions and recommendations regarding the claim process.

**4. What is the main purpose of an insurance reserve?**

- A. To adjust premiums for high-risk clients**
- B. To accumulate funds for marketing strategies**
- C. To set aside funds for future claims and potential payouts**
- D. To invest in profitable ventures for the insurance company**

The main purpose of an insurance reserve is to set aside funds for future claims and potential payouts. This is essential for an insurance company to ensure that it has enough financial resources available to cover claims that policyholders may file in the future. By maintaining reserves, the company can manage its obligations and guarantee that it can fulfill claims made by insured parties. This practice also enhances the company's financial stability, allowing it to operate effectively and build trust with its clients, as they can be assured that their potential claims will be settled in a timely manner. The other options touch on aspects related to the business operations of an insurance company but do not specifically address the foundational need for reserves in guaranteeing payouts against claims. For instance, adjusting premiums for high-risk clients pertains to underwriting policies rather than the purpose of reserves. Accumulating funds for marketing strategies focuses on business growth and customer acquisition, while investing in profitable ventures revolves around generating income, neither of which directly relates to the protective function of reserves in covering future claims.

**5. Which of the following is a requirement for a foreign or alien insurer to operate in Hawaii?**

- A. Must have local headquarters**
- B. Must have transacted business for 5 years**
- C. Must hold special permits**
- D. Must have a local agent**

A foreign or alien insurer seeking to operate in Hawaii must meet various regulatory requirements, one of which includes demonstrating a certain level of operational experience. While the answer suggests that the insurer must have transacted business for five years, understanding the rationale behind this requirement is crucial. This requirement ensures that the insurer has established a track record and a solid operational background before entering the Hawaiian market. It helps regulators ensure that the company is financially stable and possesses the necessary expertise to conduct insurance business, thus protecting consumers. The other options, while potentially relevant to the operations of insurers, do not constitute essential requirements for initiating business in Hawaii. For example, local headquarters is not mandated for all foreign insurers, and while some might need special permits, this is not a blanket requirement for all. Additionally, having a local agent is typically a good practice to facilitate communication and compliance with state regulations, but it isn't a strict requirement for operational eligibility. Overall, the emphasis on having a proven operational history aids in maintaining the integrity and stability of the insurance market in Hawaii.

**6. In an insurance policy, what are "exclusions"?**

- A. Specific conditions or circumstances covered under the policy**
- B. Amendments made to increase coverage**
- C. Specific conditions or circumstances that are not covered by the policy**
- D. General terms of the policy document**

Exclusions in an insurance policy refer to specific conditions or circumstances that are not covered by the policy. They are crucial for defining the limits of coverage and clarifying what risks the insurer will not assume. By outlining these exclusions, the insurance company helps the policyholder understand under what situations the policy will not provide financial protection. For instance, a homeowner's insurance policy might exclude coverage for certain types of natural disasters, such as earthquakes or floods, unless the policyholder purchases an additional rider. This provision helps limit the insurer's liability while still providing the option for policyholders to manage certain risks through additional coverage. Understanding exclusions is essential for both policyholders and adjusters, as it impacts claims processing and ensures that the insured has realistic expectations regarding their coverage. Recognizing these limitations also helps in making informed decisions when choosing insurance coverage.

7. What is the difference between an independent adjuster and a public adjuster?
- A. An independent adjuster works for the government, while a public adjuster works for the insurer
  - B. An independent adjuster works for an insurance company, while a public adjuster advocates for the policyholder**
  - C. A public adjuster helps insurers, while an independent adjuster helps policyholders
  - D. There is no difference; both serve the same purpose

The distinction between an independent adjuster and a public adjuster centers on whom they represent in the claims process. An independent adjuster typically works on behalf of insurance companies to assess claims, investigate losses, and evaluate the validity of claims submitted by policyholders. This role involves determining the scope of the insurer's liability and ensuring that claims are handled in alignment with the insurer's policies and practices. In contrast, a public adjuster is specifically hired by policyholders to advocate for their interests during the claims process. Public adjusters help policyholders understand their coverage, prepare and submit claims, and negotiate settlement amounts. Their primary goal is to ensure that the policyholder receives a fair settlement that accurately reflects the damages and losses incurred. This fundamental difference in representation is crucial for consumers navigating insurance claims, as it highlights the importance of having an advocate working directly for their interests, rather than for the insurance company.

8. What does personal property insurance protect against?
- A. Lost income due to theft
  - B. Personal belongings from loss or damage**
  - C. Liability for injuries on premises
  - D. Medical expenses incurred by guests

Personal property insurance provides coverage specifically for personal belongings, offering protection against loss or damage to items such as furniture, electronics, clothing, and other possessions. This type of insurance helps individuals recover financially when their property is stolen, damaged by fire, or impacted by other covered perils. In contrast, lost income resulting from theft, liability for injuries on the premises, and medical expenses incurred by guests pertain to other types of insurance. Lost income due to theft typically falls under business interruption insurance, while liability coverage protects against claims for injuries that occur on one's property. Medical expenses for guests are covered through liability insurance as well when there is an injury on the premises. Each of these other options includes protections that serve different purposes and are not covered by personal property insurance.

**9. Who should receive a cancellation notice when a policyholder is deemed a poor commercial risk?**

- A. Only the individual whose name appears first on the policy**
- B. All individuals listed under the policy**
- C. The policyholder only**
- D. The insurance agent handling the policy**

When a policyholder is deemed a poor commercial risk and a cancellation notice is required, it is important to adhere to the proper protocols outlined in the policy and state regulations. The correct choice clarifies that the individual whose name appears first on the policy is the one who should receive the cancellation notice. This individual is typically recognized as the primary policyholder and is usually responsible for making decisions regarding the coverage. As such, providing the cancellation notice to them ensures that the designated person receives the relevant communication about the policy's status. In this context, choosing to notify only the primary named individual aligns with standard practices, ensuring that the main point of contact for the insurance contract is informed of any significant changes. The other parties listed under the policy, while they may have interests or rights related to the coverage, are typically not considered the primary contact for such official communications. This helps streamline the process and prevents confusion about who is responsible for the policy and any resulting actions that may need to be taken.

**10. Which types of damages are generally covered by liability insurance?**

- A. Property damage and personal injury**
- B. Bodily injury and property damage**
- C. Emotional distress and punitive damages**
- D. Loss of income and legal fees**

Liability insurance is designed to protect individuals and businesses from claims resulting from injuries and damages to other people or their property. The primary coverage provided by liability policies typically includes bodily injury and property damage. Bodily injury refers to physical harm or injury to a person, which could occur through an accident or negligence, and it can encompass medical expenses, rehabilitation costs, and even compensation for pain and suffering. Property damage includes financial losses stemming from damage to someone else's property, whether it be through vehicle accidents, instances of negligence, or other situations leading to loss. These two components are essential aspects of liability insurance because they address the most common legal liabilities one may encounter in daily life or business operations. Options related to emotional distress, punitive damages, loss of income, and legal fees do not align with the standard coverages of liability insurance. While emotional distress and punitive damages could potentially come into play in certain liability cases, they are not usually covered as direct damages under standard policies. Legal fees may be covered in some liability policies, but generally, personal liability insurance primarily focuses on bodily injury and property damage to shield the insured from substantial financial losses due to claims.