

Idaho Property Insurance Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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- 1. What provision defines how a policy reacts when multiple insurance policies cover the same risk?**
 - A. Nonconcurrency**
 - B. Primary and excess**
 - C. Other insurance**
 - D. Valid insurance**

- 2. What happens to coverage if a farm building is vacant for 120 consecutive days?**
 - A. No coverage for vandalism and malicious mischief**
 - B. Amount paid for covered losses is reduced by 15%**
 - C. The limits applicable to the building and its contents are reduced by 50%**
 - D. No coverage for theft**

- 3. Which of the following examples of losses is also covered under an HO-2 homeowners policy?**
 - A. Damage to the dwelling caused by the insured when moving furniture**
 - B. Accidental scorching caused by a hot iron on a built-in countertop**
 - C. Interior damage from water seeping under the shingles on the roof**
 - D. Damage to the dwelling caused by lava or dust from a volcanic eruption**

- 4. How much is covered for debris removal under the HO property additional coverages?**
 - A. Everything after a \$200 deductible**
 - B. Nothing, unless added by an endorsement**
 - C. All reasonable costs**
 - D. 90% of the total cost of clean-up**

- 5. For how many days will an antique chair be covered at a new location after being moved due to a house fire under the Standard Fire Policy?**
- A. 3 days.**
 - B. 5 days.**
 - C. 15 days.**
 - D. 30 days.**
- 6. If an insured has four identical policies covering her \$100,000 building, what would each insurer pay in the event of a total loss?**
- A. \$50,000**
 - B. \$20,000**
 - C. \$25,000**
 - D. \$30,000**
- 7. Which of the following describes the term "actual cash value" in property insurance?**
- A. Replacement cost minus depreciation**
 - B. The cost to replace the item with a new one**
 - C. The insured amount specified in the policy**
 - D. The cost of materials needed to restore the property**
- 8. How does a homeowners insurance policy respond to a covered loss?**
- A. Automatically denies all claims**
 - B. Pays upfront recovery costs**
 - C. Provides reimbursement for incurred expenses**
 - D. Pays only for liability claims**
- 9. What type of policy is specifically used for the coverage of equipment breakdown?**
- A. Property insurance policy**
 - B. Liability insurance policy**
 - C. Cascade insurance policy**
 - D. Equipment breakdown insurance policy**

10. What insurance principle is violated if an insurer neglects to pay a legitimate claim?

- A. Adhesion**
- B. Consideration**
- C. Good faith**
- D. Representation**

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Answers

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

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Explanations

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1. What provision defines how a policy reacts when multiple insurance policies cover the same risk?

- A. Nonconcurrency**
- B. Primary and excess**
- C. Other insurance**
- D. Valid insurance**

The provision that defines how a policy reacts when multiple insurance policies cover the same risk is known as "Other insurance." This term is crucial in insurance contracts because it outlines the rules and obligations of the insurers when more than one policy applies to a particular loss. This situation can lead to various scenarios regarding how claims are paid, such as pro-rata sharing, contribution by equal shares, or the application of primary and excess coverages. When a policy includes an "Other insurance" clause, it specifies the handling of claims when two or more policies cover the same loss. This definition helps prevent the insured from benefiting from overlapping coverage, ensuring that the insurance companies coordinate payments effectively to fulfill their obligations without resulting in a financial advantage to the policyholder beyond what is necessary to make them whole. The other options refer to related but distinct concepts. Nonconcurrency describes situations where different policies offer varying coverage terms, potentially leading to gaps in coverage. Primary and excess designates which policy pays first in the event of a claim, while the term "Valid insurance" is not a recognized provision but rather indicates the status of a policy being effective or in force. Therefore, "Other insurance" captures the specific provision that governs the scenario of multiple coverages and how they interrel

2. What happens to coverage if a farm building is vacant for 120 consecutive days?

- A. No coverage for vandalism and malicious mischief**
- B. Amount paid for covered losses is reduced by 15%**
- C. The limits applicable to the building and its contents are reduced by 50%**
- D. No coverage for theft**

When a farm building is vacant for 120 consecutive days, the typical provision in property insurance policies is that the coverage limits applicable to the building and its contents are reduced by 50%. This provision serves to mitigate the risk faced by insurers, as vacant properties are more susceptible to various risks, including damage from weather events, vandalism, and other hazards. The rationale behind this is that vacant buildings are often less well-maintained, and the likelihood of a loss event increases, prompting insurers to set stricter coverage limits. In many insurance policies, different terms can apply to various types of property, but the reduction in limits serves as a common strategy to encourage property owners to either maintain occupancy or inform their insurer about the vacancy status promptly. Understanding this provision helps property owners manage their risks and make informed decisions about their insurance coverage during periods when their property may be unoccupied.

- 3. Which of the following examples of losses is also covered under an HO-2 homeowners policy?**
- A. Damage to the dwelling caused by the insured when moving furniture**
 - B. Accidental scorching caused by a hot iron on a built-in countertop**
 - C. Interior damage from water seeping under the shingles on the roof**
 - D. Damage to the dwelling caused by lava or dust from a volcanic eruption**

The coverage provided by an HO-2 homeowners policy, also known as the Broad Form, includes specified perils that protect against certain risks to the dwelling, personal property, and liability. Specifically, the perils covered under an HO-2 include those that are explicitly listed in the policy. In this case, damage to the dwelling caused by lava or dust from a volcanic eruption is an example of a covered peril under an HO-2 policy. Volcanic eruptions are listed as one of the covered hazards, meaning that if a volcanic eruption causes damage to the insured property, the policy would provide coverage for that loss. This is crucial as it reflects the policy's intent to shield the insured from certain natural disasters, hence emphasizing the importance of understanding the specific perils included in different homeowners insurance forms. The other choices involve scenarios that typically do not fall under the coverage provided by an HO-2 policy. For example, losses resulting from personal negligence—such as damaging the dwelling while moving furniture or accidental scorching of countertops—are usually not covered. Similarly, interior damage from water seeping under the shingles could be seen as maintenance-related, and many policies, including HO-2, would not cover such issues unless they arise from a specifically covered peril.

- 4. How much is covered for debris removal under the HO property additional coverages?**
- A. Everything after a \$200 deductible**
 - B. Nothing, unless added by an endorsement**
 - C. All reasonable costs**
 - D. 90% of the total cost of clean-up**

The coverage for debris removal under homeowners' property additional coverages is designed to address the costs associated with the removal of debris after a covered loss. The correct answer highlights that all reasonable costs for debris removal are covered, which is essential for policyholders to ensure their properties are safe and clean after an incident such as a fire or storm damage. This coverage ensures that the insured is not financially burdened by the clean-up process when the damage is due to an insured peril. This provision allows homeowners to manage the aftermath of such events effectively, removing hazards and preventing further damage. The clarity that "reasonable costs" covers practical expenses associated with the removal process indicates that there may be some limits or expectations regarding what constitutes reasonable, ensuring that the coverage is not abused. Other options suggest conditions or limitations that do not apply to general debris removal coverage under typical homeowner's policies. For instance, implying that a deductible applies or that no coverage exists without an endorsement does not reflect the standard coverage provided in most homeowner policies. Similarly, outlining a fixed percentage of reimbursement may not encompass the complete nature of "all reasonable costs," which is broader and more inclusive, aligning better with the intent of insurance support post-loss.

5. For how many days will an antique chair be covered at a new location after being moved due to a house fire under the Standard Fire Policy?

- A. 3 days.
- B. 5 days.**
- C. 15 days.
- D. 30 days.

The correct answer indicates that an antique chair, when moved to a new location due to a house fire, will be covered for 5 days under a Standard Fire Policy. This provision is significant in property insurance as it acknowledges the necessity for temporary coverage in situations where insured property is relocated due to an unforeseen circumstance, such as a fire. This 5-day coverage period allows the insured adequate time to evaluate the situation surrounding the fire and decide on longer-term arrangements for their belongings without losing insurance protection. During this timeframe, the chair remains covered for risks like theft or damage, which can be particularly pertinent for valuable items like antiques that may otherwise be vulnerable during relocation. Understanding this aspect of the Standard Fire Policy is crucial for policyholders, particularly in contexts involving valuable personal property. It highlights the importance of being aware of policy terms related to relocation and temporary coverage, helping ensure proper risk management in times of crisis.

6. If an insured has four identical policies covering her \$100,000 building, what would each insurer pay in the event of a total loss?

- A. \$50,000
- B. \$20,000
- C. \$25,000**
- D. \$30,000

In a scenario where an insured holds four identical policies for a single property valued at \$100,000, each insurer will contribute equally to the total coverage in the event of a total loss. The total coverage provided by the four policies amounts to \$400,000 (4 policies x \$100,000 each). However, since the actual value of the claim is capped at the total value of the property, which is \$100,000, each insurer is responsible for an equal share of the loss. To calculate the payout from each policy, you would divide the total property value by the number of policies. Thus, \$100,000 divided by 4 results in \$25,000 from each insurer. This ensures that the insured receives the total value of the property while preventing any one insurer from being disproportionately burdened by the payout. Therefore, in the case of a total loss, each insurer would pay \$25,000, corresponding to the correct choice.

7. Which of the following describes the term "actual cash value" in property insurance?

- A. Replacement cost minus depreciation**
- B. The cost to replace the item with a new one**
- C. The insured amount specified in the policy**
- D. The cost of materials needed to restore the property**

The term "actual cash value" in property insurance is defined as replacement cost minus depreciation. This method calculates the value of a property item by taking into account its current worth at the time of loss, which reflects its original cost, reduced by any depreciation that has occurred over time. For example, if an insured property was bought for a certain amount and then was subject to wear and tear or other forms of depreciation, the actual cash value would represent its reduced value rather than the amount needed to buy a brand-new replacement. This approach allows insurers to provide compensation that aligns more accurately with the current condition of the property and its market value, rather than simply reimbursing the full replacement cost. The other options detail different concepts not aligned with the definition of actual cash value. The replacement cost minus depreciation clarifies the impact of depreciation on the value, whereas simply stating the replacement cost ignores the reduction in value over time. Specifying the insured amount in the policy does not relate to the valuation method used for claims. Additionally, the cost of materials needed to restore the property may not calculate the depreciation or the actual market value of lost items. Therefore, understanding actual cash value as replacement cost minus depreciation is critical in property insurance evaluations and claims processing.

8. How does a homeowners insurance policy respond to a covered loss?

- A. Automatically denies all claims**
- B. Pays upfront recovery costs**
- C. Provides reimbursement for incurred expenses**
- D. Pays only for liability claims**

A homeowners insurance policy is designed to provide financial protection against specific risks, such as damage to the home and its contents, as well as liability for injuries sustained by others on the property. When a covered loss occurs, the policy responds by reimbursing the policyholder for the expenses incurred as a direct result of that loss, up to the limits specified in the policy. This means that if a claim is filed for damage due to a fire or theft, the insurer will cover the costs associated with the recovery, allowing the homeowner to replace or repair what was lost. This reimbursement aspect is crucial because it ensures that the policyholder is made whole again after experiencing a loss, subject to the terms and coverage limits of the policy. In contrast, other options in the question do not align with how standard homeowners policies operate. For instance, the policy does not automatically deny all claims; rather, it evaluates each claim based on coverage stipulations. It also does not pay upfront recovery costs, as the homeowner typically needs to incur those costs before reimbursement can occur. Moreover, while liability claims are covered, the policy does not limit payments exclusively to those claims; it covers damages to property as well, making reimbursement for incurred expenses the most accurate description of how the policy operates.

9. What type of policy is specifically used for the coverage of equipment breakdown?

- A. Property insurance policy**
- B. Liability insurance policy**
- C. Cascade insurance policy**
- D. Equipment breakdown insurance policy**

The type of policy specifically used for the coverage of equipment breakdown is equipment breakdown insurance. This insurance is designed to protect businesses from financial loss due to the failure of machinery or equipment. It covers repair or replacement costs for essential equipment that breaks down due to mechanical failure, electrical failure, or other causes, reducing the financial impact caused by unexpected equipment issues. This type of policy is crucial for businesses that rely heavily on machinery, as it can mitigate disruption to operations and safeguard against potentially expensive repair costs. It typically includes coverage for not only the equipment but also business income losses that occur as a result of the breakdown, providing a comprehensive safety net. In contrast, a property insurance policy generally covers risks related to physical loss or damage to property but does not specifically focus on the unique issues surrounding equipment failure. Similarly, liability insurance policies are designed to protect against claims arising from injuries or damages caused to third parties, which is unrelated to the functionality of equipment. Cascade insurance does not refer to any recognized insurance type concerning equipment breakdown and thus is not applicable in this context.

10. What insurance principle is violated if an insurer neglects to pay a legitimate claim?

- A. Adhesion**
- B. Consideration**
- C. Good faith**
- D. Representation**

The situation described in which an insurer neglects to pay a legitimate claim primarily relates to the principle of good faith. This principle establishes that both the insurer and the insured have a mutual obligation to deal fairly and honestly with one another. When an insurer fails to honor a legitimate claim, it violates this principle of good faith, leading to a breach of trust in the insurance agreement and potentially causing harm to the policyholder. In the context of property insurance, good faith entails the insurer's responsibility to process claims sincerely and without unfairly denying them. If a claim is legitimate, the expectation is that the insurer will fulfill its contractual obligation and provide the necessary payment to the insured. A violation of this principle can result in the insurer facing legal consequences and a loss of reputation. The other options, while relevant to insurance principles, do not directly apply to the insurer's obligation regarding claims processing in this scenario. Adhesion relates to the consumer having little choice in contract terms, consideration refers to something of value exchanged in a contract, and representation involves the statements made by the insured when applying for insurance. Understanding these distinctions is important for grasping the broader context of insurance principles.