

Property and Casualty Insurance Basics Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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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. Don't worry about getting everything right, 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, and take breaks to retain information better.

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.

7. Use Other Tools

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!

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Questions

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- 1. What term is used for incidental damages suffered by the injured party?**
 - A. General Damages**
 - B. Special Damages**
 - C. Compensatory Damages**
 - D. Punitive Damages**

- 2. When does a Replacement Cost policy apply for property insurance?**
 - A. When claims are above a certain x-value**
 - B. When 80% of the property is insured**
 - C. When the property is new and under warranty**
 - D. When the policyholder has agreed to the terms**

- 3. In property insurance, what does loss of rental income cover?**
 - A. Costs associated with property maintenance**
 - B. Income lost due to property damage that prevents renting out the property**
 - C. Legal fees for lease agreements**
 - D. Increased property taxes after damage**

- 4. How is 'actual cash value' determined in property insurance?**
 - A. Market value of the property**
 - B. Replacement cost plus depreciation**
 - C. Replacement cost minus depreciation**
 - D. Estimated value by an appraiser**

- 5. Which of the following construction types is typically considered fire resistive?**
 - A. Wood**
 - B. Masonry**
 - C. Steel and Concrete**
 - D. Aluminum**

- 6. What term describes another person listed on a policy who usually receives coverage at no additional cost?**
- A. First Named Insured**
 - B. Additional Insured**
 - C. Excluded Insured**
 - D. Secondary Insured**
- 7. What does having a higher deductible imply about the insured's financial responsibility during a claim?**
- A. Increased insurance coverage**
 - B. Decreased financial responsibility**
 - C. Increased financial responsibility**
 - D. No change in responsibility**
- 8. Which of the following is a feature of a comprehensive auto insurance policy?**
- A. It covers only liability claims**
 - B. It covers theft and vandalism**
 - C. It is mandatory in all states**
 - D. It is the same as liability coverage**
- 9. What is an exclusion clause in an insurance policy?**
- A. A part that outlines the claims procedures**
 - B. A part of an insurance policy that eliminates coverage for certain risks**
 - C. A provision that guarantees coverage against natural disasters**
 - D. A statement regarding the insurance company's liability**
- 10. What is the primary purpose of fidelity bond insurance?**
- A. To cover equipment damage in disasters**
 - B. To protect against employee dishonesty**
 - C. To insure property against theft**
 - D. To provide health coverage for employees**

Answers

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

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Explanations

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1. What term is used for incidental damages suffered by the injured party?

- A. General Damages**
- B. Special Damages**
- C. Compensatory Damages**
- D. Punitive Damages**

The term used for incidental damages suffered by the injured party is special damages. Special damages refer to quantifiable monetary losses that are a direct result of an injury or accident, such as medical expenses, lost wages, and costs associated with property damage. These damages can be calculated and proven through receipts, bills, and other documentation, making them distinct from other types of damages. General damages, on the other hand, are more subjective and typically cover non-economic losses such as pain and suffering or emotional distress, which are not easily quantifiable. Compensatory damages is a broader term that generally encompasses both general and special damages. Punitive damages serve a different purpose, as they are intended to punish the wrongdoer and deter similar conduct in the future, rather than compensate the injured party for specific losses.

2. When does a Replacement Cost policy apply for property insurance?

- A. When claims are above a certain x-value**
- B. When 80% of the property is insured**
- C. When the property is new and under warranty**
- D. When the policyholder has agreed to the terms**

A Replacement Cost policy in property insurance applies when the insured value of the property is established to be at least 80% of its actual cash value. This percentage is known as the co-insurance requirement, which ensures that the policyholder is adequately insuring their property relative to its total value. When the coverage meets this threshold, it allows for claims to be paid at the replacement cost of the property without depreciation being factored into the claim settlement, which is typically the case in actual cash value policies. This option highlights the principle behind Replacement Cost policies, which aims to protect the policyholder by facilitating the restoration or replacement of the insured property to its original condition without a reduction for depreciation. Thus, it incentivizes the policyholder to maintain appropriate coverage levels, ensuring that in the event of a loss, they can recover adequate funds to rebuild or replace the lost items.

3. In property insurance, what does loss of rental income cover?

- A. Costs associated with property maintenance
- B. Income lost due to property damage that prevents renting out the property**
- C. Legal fees for lease agreements
- D. Increased property taxes after damage

Loss of rental income coverage is designed to protect property owners from financial losses that arise when their rental property becomes uninhabitable due to covered damages, such as fire or severe storm damage. When a property is damaged to the point that it cannot be rented out, the owner faces lost income during the repair period. This coverage compensates landlords for the rental income they would have received if the property were still habitable, ensuring they can manage their financial obligations even during the downtime caused by the damage. Understanding this, other options do not align with the specific purpose of loss of rental income coverage. For example, costs associated with property maintenance are ongoing expenses that do not relate to the immediate loss of income due to damage. Legal fees for lease agreements are generally separate business expenses not tied to the physical condition of the property and do not compensate for income loss. Increased property taxes after damage are an administrative cost and do not relate to the income potential of the property, which is the focus of the loss of rental income coverage.

4. How is 'actual cash value' determined in property insurance?

- A. Market value of the property
- B. Replacement cost plus depreciation
- C. Replacement cost minus depreciation**
- D. Estimated value by an appraiser

Actual cash value (ACV) in property insurance is determined by calculating the replacement cost of the property and then subtracting depreciation. This method provides an accurate valuation reflective of the item's current worth, considering wear and tear, age, and market conditions. Replacement cost refers to what it would take to replace the damaged property with a new item of similar kind and quality. By deducting depreciation, insurers can account for the decrease in value over time; this adjustment is essential because it ensures that the payout aligns with the current value of the property at the time of the loss, rather than its original cost or potential future value. This understanding helps grasp not only how insurers set limits on payouts after a claim but also how policyholders can expect to be compensated based on the true economic loss rather than a theoretical replacement cost.

5. Which of the following construction types is typically considered fire resistive?

- A. Wood**
- B. Masonry**
- C. Steel and Concrete**
- D. Aluminum**

The classification of construction types into categories such as fire resistive is essential for understanding how different materials affect building safety and insurance risks. Steel and concrete are considered fire resistive materials due to their inherent properties. Steel, although it can lose structural integrity when exposed to high temperatures, has significant strength and withstands fire longer without collapsing compared to wood. Concrete is non-combustible and provides effective fire resistance, making it capable of containing fires longer and protecting the structural integrity of the building. These materials are often used in commercial buildings where fire safety is a critical concern. On the other hand, wood is highly combustible and does not provide fire resistance. Masonry offers some level of fire resistance but is not as robust in that category compared to steel and concrete. Aluminum, while durable and lightweight, does not have the same fire-resistant properties as steel and concrete, especially as it can weaken under high heat. Therefore, the construction types classified as fire resistive typically include steel and concrete due to their ability to withstand fire and protect the structure effectively over time.

6. What term describes another person listed on a policy who usually receives coverage at no additional cost?

- A. First Named Insured**
- B. Additional Insured**
- C. Excluded Insured**
- D. Secondary Insured**

The term that describes another person listed on a policy who usually receives coverage at no additional cost is "Additional Insured." This designation allows the person or entity added to share in the coverage provided by the insurance policy, offering them protection against certain risks that may arise from the activities of the primary insured. By being listed as an additional insured, these individuals or entities can benefit from various coverages that the primary insured holds, which can be crucial in situations where liability for damages or claims might extend beyond the primary insured's actions. This concept is commonly used in commercial insurance policies, especially in contexts like subcontractor agreements, where a contractor may want to ensure that a client or project owner is also protected under their liability coverage. Terms such as "First Named Insured" refer to the primary policyholder, while "Excluded Insured" identifies individuals who are not covered under the policy. "Secondary Insured" is not a standard term in insurance, as the industry typically refers to these individuals as additional insureds. Understanding these distinctions helps clarify the roles and responsibilities of all parties covered under an insurance policy.

7. What does having a higher deductible imply about the insured's financial responsibility during a claim?

- A. Increased insurance coverage**
- B. Decreased financial responsibility**
- C. Increased financial responsibility**
- D. No change in responsibility**

A higher deductible means that the insured has chosen to pay more out-of-pocket before the insurance company begins to cover the remaining costs of a claim. This choice typically results in lower premium payments, as the insured is taking on more risk. When an insured opts for a higher deductible, they are signaling their willingness to absorb a larger portion of any potential loss. In the event of a claim, the insured is responsible for the amount of the deductible, meaning they must pay that amount themselves before the insurer covers the rest. As such, their financial responsibility increases because they will need to cover more expenses upfront in the event of a loss. This option reflects a fundamental concept in property and casualty insurance: a balance between premium costs and out-of-pocket expenses.

8. Which of the following is a feature of a comprehensive auto insurance policy?

- A. It covers only liability claims**
- B. It covers theft and vandalism**
- C. It is mandatory in all states**
- D. It is the same as liability coverage**

A comprehensive auto insurance policy includes a broad range of coverage that protects the insured against various risks that are not related to collisions. Specifically, it covers incidents such as theft, vandalism, natural disasters, and damage from falling objects. This is pivotal for policyholders because it ensures they are protected from losses beyond typical accidents, providing peace of mind against unpredictable events that can severely impact the value of their vehicle. In contrast to the comprehensive coverage, liability claims pertain solely to damages inflicted on other people and their property when the insured is at fault in an accident, which is not all-encompassing. Furthermore, while some states have minimum insurance requirements, comprehensive coverage is not mandated in all states, making it an optional protection. Lastly, comprehensive coverage is distinctly separate from liability coverage; the former provides a wider range of protections beyond just liability. Thus, the characteristic of covering theft and vandalism is what sets comprehensive insurance apart and emphasizes its extensive nature.

9. What is an exclusion clause in an insurance policy?

- A. A part that outlines the claims procedures**
- B. A part of an insurance policy that eliminates coverage for certain risks**
- C. A provision that guarantees coverage against natural disasters**
- D. A statement regarding the insurance company's liability**

An exclusion clause in an insurance policy specifically outlines certain risks or circumstances that are not covered by the policy. This means that if a loss occurs due to one of these excluded risks, the insurer is not liable to pay for that loss. Exclusions help define the limits of coverage and protect insurers from claims related to high-risk activities or situations that are not in line with the policy's intent. This is crucial for both the insurer and the insured, as it clarifies what is not covered, allowing the insured to understand their potential financial exposure and make informed decisions about additional coverage or endorsements if needed. The other options describe aspects of insurance policies that do not pertain to exclusions. For instance, the claims procedures refer to the steps a policyholder must take to file a claim, coverage guarantees typically provide assurance against specific risks, and statements regarding liability outline an insurer's responsibilities rather than what is excluded from coverage.

10. What is the primary purpose of fidelity bond insurance?

- A. To cover equipment damage in disasters**
- B. To protect against employee dishonesty**
- C. To insure property against theft**
- D. To provide health coverage for employees**

Fidelity bond insurance is specifically designed to protect businesses from losses caused by the dishonesty or fraudulent acts of their employees. This type of insurance comes into play when an employee steals money or property from the employer or engages in deceptive practices that lead to financial damage to the company. Essentially, it acts as a safeguard for businesses, ensuring they can recover losses incurred due to these acts of employee dishonesty. The other options highlight different aspects of insurance coverage but do not focus on employee-related dishonesty. For example, equipment damage refers to physical asset protection usually covered under other forms of insurance, while property theft is generally addressed through commercial property insurance. Health coverage for employees falls under health insurance and employee benefits rather than fidelity bonds. Thus, the primary purpose of fidelity bond insurance is to specifically address the risks associated with employee dishonesty, making it a vital component of business security.

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:

<https://propertycasualtybasics.examzify.com>

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