

PSI Insurance Practice Exam (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. 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. Which of the following is not a requirement for a life insurance policy to be effective?**
 - A. The applicant must be the insured**
 - B. The producer must explain the policy to the client**
 - C. The insured must undergo a medical exam**
 - D. Premiums must be paid**
- 2. What feature distinguishes Universal Life Insurance from other forms of Whole Life Insurance?**
 - A. Dividend payments**
 - B. Premium schedules**
 - C. Guaranteed death benefit**
 - D. Cash value accumulation**
- 3. A Business Disability Buy-Sell Policy is designed to assist with what?**
 - A. Retirement of a businessowner**
 - B. Disability of a businessowner**
 - C. Sales of stock**
 - D. Allocation of profits**
- 4. What protection does the grace period provide for a policyholder?**
 - A. Reduces the policy premium**
 - B. Allows policy changes without notice**
 - C. Protects against unintentional lapse of the policy**
 - D. Extends the coverage period**
- 5. What term is used for the clause in a policy that specifies certain risks will not be covered?**
 - A. Indemnity clause**
 - B. Exclusion clause**
 - C. Coverage clause**
 - D. Policyholder agreement**

6. What method should an insurer use to protect itself in the event of a dispute regarding changes made in a completed application?

- A. Have a witness sign the application**
- B. Initial any changes made to the application**
- C. Keep a copy of the original application**
- D. Request verification from the applicant**

7. What is one key difference between term life insurance and whole life insurance?

- A. Term life offers cash value accumulation**
- B. Whole life provides coverage for a limited time**
- C. Term life has a lower initial premium**
- D. Whole life policies expire after a certain age**

8. In Key Employee Life Insurance, who typically names the beneficiary?

- A. Employee**
- B. Employer**
- C. Insurance Company**
- D. Co-workers**

9. Which of the following is true about federal taxation of individual life insurance premiums?

- A. Premiums are tax-deductible.**
- B. Premiums are paid with pre-tax dollars.**
- C. Premiums are not tax-deductible and are paid with after-tax dollars.**
- D. Premiums are partially tax-deductible.**

10. What is typically not covered by insurance due to its nature?

- A. Accidental losses**
- B. Predictable losses**
- C. Natural disasters**
- D. Personal injury**

Answers

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

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Explanations

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1. Which of the following is not a requirement for a life insurance policy to be effective?

- A. The applicant must be the insured**
- B. The producer must explain the policy to the client**
- C. The insured must undergo a medical exam**
- D. Premiums must be paid**

For a life insurance policy to be effective, it is essential to meet several requirements, one of which is related to the actions of the parties involved, including the insured and the insurer. The correct choice highlights that while it is considerate and beneficial for the producer to explain the policy to the client, this step is not a strict requirement for the validity of the policy itself. In the context of other options, the applicant being the insured ensures that the person receiving the benefits is the same who is applying for the coverage. Additionally, undergoing a medical exam is often required, especially for higher coverage amounts or specific risk factors, as it provides the insurer with essential information to assess the applicant's risk. Lastly, payment of premiums is crucial, as it activates the coverage and keeps the policy in force. Thus, while educating the client about the policy is important for a thorough understanding and informed decision-making, it is not foundational to the policy's effectiveness in the legal or contractual sense.

2. What feature distinguishes Universal Life Insurance from other forms of Whole Life Insurance?

- A. Dividend payments**
- B. Premium schedules**
- C. Guaranteed death benefit**
- D. Cash value accumulation**

Universal Life Insurance is distinct from other forms of Whole Life Insurance primarily due to its flexible premium schedules. Unlike traditional Whole Life Insurance, which typically requires fixed premium payments at regular intervals, Universal Life Insurance allows policyholders to adjust their premium contributions within certain limits. This flexibility lets individuals manage their premiums according to their financial situation, making it more adaptable to changing circumstances. In addition to flexible premiums, Universal Life Insurance provides a death benefit and also has a cash value accumulation feature, but the key differentiator is indeed the ability for policyholders to vary their premium payments. This adaptability can appeal to those who seek more control over their insurance investment and financial planning.

3. A Business Disability Buy-Sell Policy is designed to assist with what?

- A. Retirement of a businessowner**
- B. Disability of a businessowner**
- C. Sales of stock**
- D. Allocation of profits**

A Business Disability Buy-Sell Policy is specifically designed to provide financial resources to undertake the transfer of ownership of a business when a business owner becomes disabled. The principle behind this type of policy is to ensure that remaining business partners or shareholders can buy out the disabled owner's share of the business without facing significant financial strain. When a business owner becomes disabled and cannot continue to manage their part of the company, the policy facilitates a smooth transition by enabling the business to use the insurance proceeds to purchase the disabled owner's interest. This helps maintain business continuity and avoids potential disputes among partners regarding the management and ownership of the business during the owner's period of incapacity. While options related to retirement, stock sales, and profit allocation are important aspects of business management and finance, they do not specifically pertain to the unique role of a Business Disability Buy-Sell Policy, which focuses solely on the circumstances surrounding a business owner's disability.

4. What protection does the grace period provide for a policyholder?

- A. Reduces the policy premium**
- B. Allows policy changes without notice**
- C. Protects against unintentional lapse of the policy**
- D. Extends the coverage period**

The grace period in an insurance policy serves as a protective measure for policyholders to mitigate the risk of an unintentional lapse in coverage. This period, which typically lasts for 30 days after the premium due date, gives policyholders extra time to make their premium payment without losing coverage. During this timeframe, if the policyholder pays the premium, the policy remains in force, providing essential protection and ensuring that the risks covered by the policy are still active. If a policyholder fails to pay the premium by the due date, without the protection of the grace period, the policy could lapse immediately, leaving the policyholder exposed to potential financial loss. Therefore, the grace period acts as a crucial safety net, allowing individuals to maintain their insurance coverage despite any temporary oversight in premium payment.

5. What term is used for the clause in a policy that specifies certain risks will not be covered?

- A. Indemnity clause**
- B. Exclusion clause**
- C. Coverage clause**
- D. Policyholder agreement**

The term used for the clause in an insurance policy that specifies certain risks will not be covered is known as the exclusion clause. This clause outlines specific exclusions, which are the instances or conditions under which the insurer will not provide coverage. Understanding the exclusion clause is critical for policyholders, as it helps them recognize the limitations of their insurance coverage and identify any potential gaps in protection. It clarifies what is not included in the policy, thereby allowing the insured to make informed decisions when purchasing insurance and managing their risks.

6. What method should an insurer use to protect itself in the event of a dispute regarding changes made in a completed application?

- A. Have a witness sign the application**
- B. Initial any changes made to the application**
- C. Keep a copy of the original application**
- D. Request verification from the applicant**

When an insurer makes a change to a completed application, it is crucial to ensure that there is a clear and documented agreement on those changes. Having the applicant initial any modifications made to the application serves as a form of acknowledgment and consent from them. This indicates that the applicant is aware of the changes and agrees to them, which can be critical if a dispute arises later regarding the content of the application. By requiring initials next to any alterations, the insurer creates a more robust record that substantiates the final terms and conditions as understood by both parties. This practice minimizes ambiguity that could lead to misunderstandings or claims of unauthorized changes. It provides clear evidence that both the insurer and the applicant concurred on the specific details at the time of the application submission, which can be invaluable in the event of any subsequent disputes.

7. What is one key difference between term life insurance and whole life insurance?

- A. Term life offers cash value accumulation**
- B. Whole life provides coverage for a limited time**
- C. Term life has a lower initial premium**
- D. Whole life policies expire after a certain age**

Term life insurance and whole life insurance serve different purposes and have distinct features. One key difference is that term life insurance typically has a lower initial premium compared to whole life insurance. Term life insurance is designed to provide coverage for a specific period, such as 10, 20, or 30 years, and it pays a death benefit to the beneficiaries if the insured dies during that term. Since it does not build any cash value and is effectively a pure protection policy, its premiums are generally more affordable, especially for younger individuals or those in good health. Whole life insurance, on the other hand, is a permanent life insurance policy that provides coverage for the insured's lifetime, as long as the premiums are paid. It also includes a savings component that accumulates cash value over time, which is not a feature of term life insurance. This accumulated cash value can be borrowed against or withdrawn, adding to the overall cost of whole life premiums. The other options do not accurately reflect the essential differences: whole life policies do not expire after a certain age as long as premiums are maintained, they also offer cash value accumulation, and term life does not provide coverage for a limited time in the conventional sense—it's based on the selected term length, which can

8. In Key Employee Life Insurance, who typically names the beneficiary?

- A. Employee**
- B. Employer**
- C. Insurance Company**
- D. Co-workers**

In Key Employee Life Insurance, the employer typically names the beneficiary. This type of insurance is designed to provide financial protection for a business in the event of the death of a key employee whose contributions are vital to the success and revenue generation of the company. Since the employer is the one who takes out the policy and pays the premiums, they also have the control over who will benefit from the policy in case the key employee passes away. By naming themselves, or the business, as the beneficiary, the employer can ensure that the funds from the policy can be used for purposes such as replacing the key employee, covering loss of income, or facilitating a smooth transition for the company. This characteristic underscores the unique nature of Key Employee Life Insurance compared to individual life insurance policies, where the insured individual typically names the beneficiary.

9. Which of the following is true about federal taxation of individual life insurance premiums?

- A. Premiums are tax-deductible.**
- B. Premiums are paid with pre-tax dollars.**
- C. Premiums are not tax-deductible and are paid with after-tax dollars.**
- D. Premiums are partially tax-deductible.**

The correct statement regarding the federal taxation of individual life insurance premiums is that premiums are not tax-deductible and are paid with after-tax dollars. This means that when an individual pays premiums for their life insurance policy, they do so using income that has already been subjected to federal income tax. As a result, these payments do not reduce the individual's taxable income. This treatment aligns with tax laws that recognize life insurance premiums as a personal expense, much like paying for other personal insurance (e.g., homeowners or auto insurance), which generally does not offer tax advantages to the policyholder. This understanding plays an important role in personal financial planning, as individuals need to recognize how their life insurance expenses fit into their overall budget without expecting a tax deduction for those costs.

10. What is typically not covered by insurance due to its nature?

- A. Accidental losses**
- B. Predictable losses**
- C. Natural disasters**
- D. Personal injury**

Predictable losses are typically not covered by insurance because they are considered foreseeable and manageable risks. Insurance is designed to protect against unforeseen events that can cause financial loss, such as accidents or natural disasters, which are inherently unpredictable. When losses can be reliably anticipated and quantified, they fall outside the scope of insurance, since policyholders can prepare or plan for them in advance. For instance, if a business knows that certain weather patterns lead to flooding in a specific area every year, the losses due to flooding would be predictable. As such, insurers would not cover these losses as they do not fit the risk profile that insurance aims to address, which is unexpected and unintended losses. Coverage is intended for scenarios where uncertainty plays a significant role, making unpredictable losses more suited for insurance protection.

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://psiinsurance.examzify.com>

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

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