

PSI INSURANCE PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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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. What is the effect of a common disaster clause in a life insurance policy?**
 - A. To enhance coverage options
 - B. To simplify claims processing
 - C. To determine beneficiary payments
 - D. To specify conditions in case of a shared accident
- 2. Which feature of term insurance provides temporary protection that can change to permanent protection within specified years without evidence of insurability?**
 - A. Renewable
 - B. Convertible
 - C. Reinvestment
 - D. Adjustable
- 3. Which of the following best describes warranties in the context of an insurance policy?**
 - A. They are guidelines for insurance agents.
 - B. They are statements that must be true at all times.
 - C. They serve as optional clauses in a policy.
 - D. They are merely recommendations for policyholders.
- 4. Which of the following is not affected by the time limit on certain defenses in health insurance policies?**
 - A. Pre-existing conditions
 - B. Fraudulent misstatements
 - C. Material misrepresentation
 - D. Non-payment of premiums
- 5. An insurance policy that is intended to restore the insured to the same financial status as before the loss is a contract of?**
 - A. indemnity.
 - B. subrogation.
 - C. assumption.
 - D. guarantee.

- 6. A Long-Term Care Policy covers which of the following?**
- A. Skilled nursing care only.
 - B. Respite care.
 - C. Home health care.
 - D. Only personal care services.
- 7. Which policy is specifically designed to provide nursing home benefits for at least 12 consecutive months?**
- A. Long-Term Care
 - B. Short-Term Care
 - C. Life Insurance
 - D. Medicare Advantage
- 8. What type of insurance contract involves a promise made by only one party?**
- A. Unilateral
 - B. Bilateral
 - C. Multilateral
 - D. Collective
- 9. In the context of authority under insurance contracts, what is "implied authority"?**
- A. Written documentation granting specific permissions
 - B. Authority granted through actions and behaviors
 - C. Authority assigned by regulatory bodies
 - D. Authority agreed upon verbally
- 10. In which situation are premiums paid by a business NOT tax deductible as business expenses?**
- A. For health insurance of employees
 - B. For key person disability income insurance
 - C. For accident and health plans
 - D. For general liability insurance

Answers

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

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Explanations

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1. What is the effect of a common disaster clause in a life insurance policy?

- A. To enhance coverage options
- B. To simplify claims processing
- C. To determine beneficiary payments**
- D. To specify conditions in case of a shared accident

The common disaster clause in a life insurance policy is designed to address situations where both the insured and the beneficiary die in the same event, such as an accident. This clause outlines the conditions under which the death benefit will be paid, specifically focusing on which party's death occurs first and its impact on the distribution of the insurance proceeds. In most cases, if the insured and beneficiary die simultaneously or under circumstances that make it unclear who died first, the common disaster clause will stipulate that the death benefit will be paid as if the beneficiary had predeceased the insured. This ensures that the proceeds go to contingent beneficiaries or the estate of the insured, rather than remaining with the beneficiary who may have died in the same event. Hence, determining beneficiary payments is critical in these scenarios, and the clause clarifies how to handle such situations. While the clause does simplify claims processing and ensures smoother operations in complicated circumstances, its primary focus is on clarifying the terms regarding payments to beneficiaries under common disaster conditions, thereby making the correct answer relate directly to determining beneficiary payments.

2. Which feature of term insurance provides temporary protection that can change to permanent protection within specified years without evidence of insurability?

- A. Renewable
- B. Convertible**
- C. Reinvestment
- D. Adjustable

The feature of term insurance that provides temporary protection, with the option to change to permanent protection within specified years without requiring evidence of insurability, is convertible. This means that the policyholder can convert their term insurance policy into a permanent life insurance policy, like whole or universal life insurance, at predetermined times during the term. This conversion is advantageous because it allows the insured to maintain coverage as their needs change without undergoing new underwriting processes or proving their health status at the time of conversion. This is particularly valuable for individuals who may develop health issues later that could make obtaining a new policy more difficult or costly. In contrast, other options such as renewable pertain to the ability to renew the term policy for additional periods, but do not allow for conversion to permanent insurance.

3. Which of the following best describes warranties in the context of an insurance policy?

- A. They are guidelines for insurance agents.
- B. They are statements that must be true at all times.**
- C. They serve as optional clauses in a policy.
- D. They are merely recommendations for policyholders.

Warranties in the context of an insurance policy are specific stipulations that the insured agrees to uphold as true and accurate throughout the duration of the policy. This means that the statements made in the warranty are not just initial representations; they must remain true at all times while the insurance coverage is in effect. If a warranty is found to be false or unfulfilled, it can lead to the insurer denying a claim or canceling the policy altogether. This underlines the fundamental nature of warranties: they establish a stricter standard than mere representations or conditions by requiring ongoing truthfulness and adherence. This approach emphasizes the importance of transparency and honesty in the insurance relationship. In contrast, guidelines, optional clauses, or recommendations do not carry the same binding obligation as warranties, which have a direct impact on the validity of the insurance contract and the claims process.

4. Which of the following is not affected by the time limit on certain defenses in health insurance policies?

- A. Pre-existing conditions
- B. Fraudulent misstatements**
- C. Material misrepresentation
- D. Non-payment of premiums

In health insurance policies, the time limit on certain defenses is designed to protect policyholders by preventing insurers from contesting claims based on certain grounds after a specific period, usually two years. The options presented relate to various aspects of the insurance contract. Pre-existing conditions are affected by the time limit, as insurers can typically impose limitations on coverage for conditions that existed before the policy was effective, but these limitations often expire after a certain duration. Fraudulent misstatements, however, are not subject to the same time limitations. If a policyholder commits fraud by misrepresenting information to the insurer, the insurer retains the right to deny claims or rescind the policy at any time, without being bound by a time limit. This ensures that policyholders cannot benefit from dishonest actions, reinforcing the importance of truthful declarations in obtaining insurance coverage. Material misrepresentation also falls under the time limit on certain defenses; insurers can only contest claims based on material misrepresentations if raised within the specified period. Non-payment of premiums is a different matter, as it pertains to the ongoing obligations of policyholders. While insurers typically can cancel a policy for non-payment at any time, this issue does not relate directly to the defenses that have time limits. Thus, the

5. An insurance policy that is intended to restore the insured to the same financial status as before the loss is a contract of?

A. indemnity.

B. subrogation.

C. assumption.

D. guarantee.

The correct choice refers to a contract of indemnity, which is a fundamental principle in insurance. Indemnity is designed to ensure that the insured is reimbursed for their losses and returned to their original financial condition prior to the event that caused the loss. This is crucial in insurance because it prevents the policyholder from profiting from their loss and maintains fairness in the financial system. For instance, if a policyholder has a property damaged in a fire, the indemnity principle allows them to receive compensation for the actual value of the losses incurred, covering repairs or replacements. This principle is what differentiates insurance from gambling; insurance aims to provide a safety net without the intention of providing financial gain following a loss. The other options relate to different concepts within insurance but do not embody the core idea of restoring financial status post-loss. Subrogation refers to the insurer's right to pursue a third party that caused the loss after they have compensated the insured. Assumption typically relates to the transfer of obligations from one party to another, often seen in contractual agreements. Guarantee denotes a promise to fulfill an obligation, especially in financial contexts, but it does not specifically address the restoration of financial status after a loss. Thus, indemnity aptly encapsulates the intention behind

6. A Long-Term Care Policy covers which of the following?

A. Skilled nursing care only.

B. Respite care.

C. Home health care.

D. Only personal care services.

A Long-Term Care Policy is designed to provide coverage for a range of services that help individuals who have chronic illnesses or disabilities. Respite care is included as part of these services because it offers temporary relief to caregivers who may need a break from their caregiving responsibilities. This type of care ensures that the individual remains in a safe, supportive environment while their primary caregiver takes time off, which is crucial for overall well-being. Long-term care policies typically encompass various forms of care, such as in-home care, assisted living, and nursing facility care. While skilled nursing care and personal care services are important components, respite care specifically supports caregivers and addresses the larger context of long-term care needs. By offering respite services, these policies promote the sustainability of caregiving and the quality of life for both caregivers and care recipients.

7. Which policy is specifically designed to provide nursing home benefits for at least 12 consecutive months?

- A. Long-Term Care**
- B. Short-Term Care
- C. Life Insurance
- D. Medicare Advantage

The Long-Term Care policy is specifically designed to provide benefits for nursing home care and assistance with activities of daily living, typically covering these services for an extended period, such as 12 consecutive months or more. This type of insurance is crucial for individuals who may require ongoing assistance due to chronic illnesses, disabilities, or other age-related conditions. Long-Term Care policies are tailored to address the needs of those who may spend an extended duration in a nursing home or require in-home care, thus ensuring financial support during potentially lengthy periods of care. This distinguishes them from other types of policies, as they are focused specifically on long-term care needs, unlike Short-Term Care policies, which provide coverage for a limited duration, and other options like Life Insurance or Medicare Advantage, which do not primarily focus on nursing home benefits. Choosing a Long-Term Care policy ensures that individuals have access to the necessary resources and services required for their health care, particularly when facing prolonged illness or disability.

8. What type of insurance contract involves a promise made by only one party?

- A. Unilateral**
- B. Bilateral
- C. Multilateral
- D. Collective

The correct answer is unilateral. A unilateral insurance contract is characterized by the fact that only one party—the insurance company—makes a promise to pay for covered losses in exchange for the insured party's payment of premiums. In this context, the insurer is bound by its promise to provide coverage when a covered event occurs, while the insured is not legally obligated to continue paying premiums or to follow through on any specific promise. This nature of a unilateral contract means that the insurer assumes the risk and the obligations under the contract upon acceptance of the premium, whereas the insured's role is more about compliance with the terms of the policy, rather than a reciprocal promise. This distinguishes it from bilateral contracts, where both parties involved exchange promises, creating mutual obligations. In addition, the terms multilateral and collective don't correctly define standard insurance contract types in this context. Multilateral would refer to agreements involving multiple parties, while collective might imply a group insurance situation but does not specifically refer to the nature of the promise involved. Thus, the defining characteristic of a unilateral contract aligns perfectly with the type of promise made in this scenario.

9. In the context of authority under insurance contracts, what is "implied authority"?

- A. Written documentation granting specific permissions
- B. Authority granted through actions and behaviors**
- C. Authority assigned by regulatory bodies
- D. Authority agreed upon verbally

Implied authority refers to the authority that an insurance agent has, which is not explicitly stated in their contract but is inferred from the actions and behaviors that are typically expected within the scope of their position. This means that even if there is no written documentation granting specific permissions, agents may still possess the authority to perform certain tasks based on their role and the standard practices within the industry. For example, if an agent routinely processes claims or collects premiums as part of their job, those actions suggest that they have the authority to do so, regardless of whether this authority is formally documented. In this way, implied authority helps facilitate operations within the insurance sector by allowing agents to act in a manner consistent with their responsibilities, making it easier for clients and insurers to navigate transactions without needing constant explicit approval. This understanding of implied authority emphasizes the agent's ability to act in the best interest of the principal (the insurance company) based on established norms and practices.

10. In which situation are premiums paid by a business NOT tax deductible as business expenses?

- A. For health insurance of employees
- B. For key person disability income insurance**
- C. For accident and health plans
- D. For general liability insurance

Premiums paid for key person disability income insurance are not tax deductible as business expenses because this type of insurance is designed to provide income to the insured key employee in the event of a disability. The key employee is often a significant contributor to the company's revenue or operations, and any benefits received from such policies are typically considered to be personal in nature rather than a business expense. In contrast, premiums for health insurance of employees, accident and health plans, and general liability insurance are generally deductible as business expenses because they are necessary for the conduct of business, providing direct benefits to the employees or protecting the company from potential liabilities. This distinction underscores the tax treatment that differentiates personal insurance benefits from those that are strictly business-related.

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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