

PSI Property and Casualty 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

- 1. What is the significance of "occurrence" in liability insurance?**
 - A. It refers to a scheduled maintenance event.**
 - B. It refers to an event that causes an injury or damage and triggers coverage under the policy.**
 - C. It denotes the total number of claims made within a year.**
 - D. It indicates a natural disaster event only.**
- 2. What is a moral hazard in risk management?**
 - A. A situation where all parties are equally responsible for their actions**
 - B. A scenario where one party has an incentive to take risks because they do not bear full consequences**
 - C. A guarantee by the insurer to protect all losses**
 - D. A method to minimize insurance fraud**
- 3. Under the terms of a Personal Auto policy, an insured who is involved in an auto accident is NOT required to take which of the following actions?**
 - A. Institute suit against a negligent third party**
 - B. Cooperate in the investigation or defense of a claim**
 - C. Authorize the insurance company to obtain related medical records**
 - D. Submit to a medical examination at the request of the insurance company**
- 4. What triggers liability coverage for property damage?**
 - A. Intentional acts of damage**
 - B. Unintended damage to tangible property of others**
 - C. Damage due to negligence**
 - D. Damage that occurs on the insured's property**
- 5. What does "underwriting" entail in insurance?**
 - A. Evaluating risk and determining terms and pricing**
 - B. Collecting premiums from policyholders**
 - C. Processing claims for insured events**
 - D. Advertising insurance products to clients**

- 6. Describe the term "negligence" in the context of insurance claims.**
- A. Intentional harm caused to another party.**
 - B. Failure to take reasonable care that results in damage or injury to another party.**
 - C. Ignoring safety regulations set by the insurance company.**
 - D. Providing false information on an insurance application.**
- 7. What type of insurance provides coverage for non-owned vehicles used for business purposes?**
- A. Commercial auto insurance**
 - B. Personal auto insurance**
 - C. Hired and non-owned auto insurance**
 - D. General liability insurance**
- 8. In property insurance, what does "pro-rata" refer to?**
- A. A method for calculating policy limits**
 - B. A method for calculating return premiums**
 - C. A formula for determining policy pricing**
 - D. A type of endorsement in policies**
- 9. Which of the following non-owned vehicles would be covered for liability under a Personal Auto Policy?**
- A. An auto owned by another family member but operated by the insured.**
 - B. An auto owned and operated solely by another family member.**
 - C. A company car regularly furnished to the insured.**
 - D. A motorcycle owned by another family member.**
- 10. Which factor is crucial when calculating "actual cash value" in property insurance?**
- A. Replacement value of property**
 - B. Negotiated price between buyer and seller**
 - C. Depreciation associated with the property**
 - D. Market demand for the property**

Answers

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

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Explanations

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1. What is the significance of "occurrence" in liability insurance?

- A. It refers to a scheduled maintenance event.
- B. It refers to an event that causes an injury or damage and triggers coverage under the policy.**
- C. It denotes the total number of claims made within a year.
- D. It indicates a natural disaster event only.

The significance of "occurrence" in liability insurance is that it refers to an event that causes injury or damage, activating the coverage under the policy. This term is critical as it defines what types of incidents will be covered by the insurance. An occurrence can encompass a wide range of incidents, including accidents, negligence, or other events that result in claims made against the insured. Understanding this concept is crucial for both policyholders and insurance professionals, as it helps determine when coverage applies and how claims will be processed. The definition of an occurrence directly impacts the liability coverage provided, influencing both the insured's protection and the insurer's risk exposure. While other options mention various concepts, they do not accurately represent the definition of "occurrence" as it pertains to liability insurance. For instance, scheduled maintenance events, the total number of claims, and natural disasters are not encapsulated within the broad definition of an occurrence related to liability coverage.

2. What is a moral hazard in risk management?

- A. A situation where all parties are equally responsible for their actions
- B. A scenario where one party has an incentive to take risks because they do not bear full consequences**
- C. A guarantee by the insurer to protect all losses
- D. A method to minimize insurance fraud

A moral hazard refers to a situation in risk management where one party may take on greater risks because they do not face the full consequences of their actions. This typically occurs after obtaining insurance coverage, where the individual or entity covered may feel less inclined to act carefully, knowing that any potential losses will be borne by the insurer. This phenomenon can arise in various contexts, such as when a person with health insurance engages in riskier health behaviors because they believe their medical costs will be covered. It underscores the importance of aligning incentives in insurance contracts to minimize risk-taking behaviors that could lead to higher claims. Recognizing moral hazard is crucial for insurers as they craft policies and determine premiums, as it affects the overall risk pool and the insurer's financial stability. Understanding moral hazard helps in creating effective risk management strategies, ensuring that all parties involved have incentives to act responsibly and manage risks prudently.

3. Under the terms of a Personal Auto policy, an insured who is involved in an auto accident is NOT required to take which of the following actions?

- A. Institute suit against a negligent third party**
- B. Cooperate in the investigation or defense of a claim**
- C. Authorize the insurance company to obtain related medical records**
- D. Submit to a medical examination at the request of the insurance company**

In the context of a Personal Auto policy, the requirement for an insured to take specific actions after an auto accident is mainly focused on cooperation and providing necessary information to the insurance company. Among the choices given, the action an insured is not required to take is to institute suit against a negligent third party. This is correct because the insured has the option to pursue legal action against another party if they choose to, but it is not a mandatory requirement imposed by their insurance policy. Many policyholders may decide to negotiate directly with the insurance companies involved rather than filing a lawsuit, which involves additional time, costs, and complexities. The other actions listed are contractual obligations typically found within the terms of a Personal Auto policy. Cooperation in the investigation or defense of a claim is essential to allow the insurer to assess the situation effectively and handle claims. Authorizing the insurance company to obtain related medical records is necessary for the insurer to evaluate the medical aspects and ensure that claims are processed accurately. Similarly, submitting to a medical examination when requested is a common condition that allows the insurer to verify the extent of any injuries claimed. These requirements reflect the cooperative nature of insurance policies, where the insurer must collect pertinent information to provide coverage and manage claims effectively.

4. What triggers liability coverage for property damage?

- A. Intentional acts of damage**
- B. Unintended damage to tangible property of others**
- C. Damage due to negligence**
- D. Damage that occurs on the insured's property**

Liability coverage for property damage is primarily triggered by unintended damage to tangible property of others. This means that when a policyholder accidentally causes damage to someone else's property, liability coverage provides financial protection against claims for that damage. The nature of liability insurance is to cover situations where the insured did not intend to cause harm or damage. This coverage addresses the financial obligations resulting from the insured's actions. For instance, if someone accidentally breaks a neighbor's fence while mowing their lawn, liability coverage would help pay for repairs. It's important that the damage is unintentional, as intentional acts are typically excluded from coverage policies because they fall outside of the premise of liability insurance, which aims to protect against accidental harm. Negligence also falls under this category, as causing damage due to negligence essentially implies an unintentional act. However, in this context, the emphasis on "unintended damage" aligns specifically with liability coverage activation, reinforcing the principle that liability insurance responds to accidental harm rather than intentional actions or negligence as singular causes.

5. What does "underwriting" entail in insurance?

- A. Evaluating risk and determining terms and pricing**
- B. Collecting premiums from policyholders**
- C. Processing claims for insured events**
- D. Advertising insurance products to clients**

Underwriting in insurance primarily involves evaluating risk and determining the terms and pricing of insurance policies. This process is crucial for insurers as it helps them assess the potential likelihood of a claim being made based on the information provided by the applicant. Underwriters analyze various factors such as the applicant's history, the type of coverage requested, and the overall risk profile to set appropriate premiums and policy conditions. This ensures that the insurer can cover potential claims while remaining financially viable. The process of underwriting is essential because it establishes the foundation of the insurance contract, determining not only how much a policyholder will pay but also what risks are acceptable to the insurer. A well-executed underwriting process helps maintain a balance between providing coverage to customers and managing risk for the company.

6. Describe the term "negligence" in the context of insurance claims.

- A. Intentional harm caused to another party.**
- B. Failure to take reasonable care that results in damage or injury to another party.**
- C. Ignoring safety regulations set by the insurance company.**
- D. Providing false information on an insurance application.**

Negligence, in the context of insurance claims, refers to the failure to take reasonable care to prevent harm or injury to another party. This concept is rooted in legal standards, where an individual or entity is expected to act with a degree of caution and diligence that a reasonably prudent person would exercise in similar circumstances. When negligence occurs, it can lead to various consequences, including personal injuries, property damage, or financial loss, which are the types of situations where insurance claims typically arise. For an insurance claim to be valid based on negligence, it must be demonstrated that the responsible party had a duty of care to the injured party, breached that duty, and caused harm as a direct result. This is crucial in determining liability and whether an insurance company will compensate for the damages incurred. In contrast, the other options focus on different concepts that do not accurately reflect negligence. Intentional harm, for instance, is classified as willful misconduct, while ignoring safety regulations pertains to regulatory compliance issues rather than negligence per se. Providing false information on an insurance application relates to fraud, which is also a separate matter that influences the validity of an insurance contract. Thus, understanding negligence is fundamental when evaluating the basis for many insurance claims, as it highlights how failure to act

7. What type of insurance provides coverage for non-owned vehicles used for business purposes?

- A. Commercial auto insurance**
- B. Personal auto insurance**
- C. Hired and non-owned auto insurance**
- D. General liability insurance**

Hired and non-owned auto insurance specifically addresses the coverage for vehicles that are not owned by an organization but are used for business purposes. This type of insurance offers protection when employees or representatives of a business utilize their personal vehicles or rented vehicles for work-related activities. It is essential for businesses that do not own a fleet of vehicles but still require coverage for the use of vehicles as part of their operations. In contrast, commercial auto insurance generally covers vehicles owned by a business, providing liability and physical damage coverage for those company-owned vehicles. Personal auto insurance is designed for individual use and does not cover vehicles that are used for business purposes, which is why it would not be suitable for this scenario. General liability insurance provides coverage for bodily injury and property damage as a result of the business's operations but does not cover vehicles or their use. Thus, the hired and non-owned auto insurance stands out as the most appropriate choice for covering non-owned vehicles used in a business context.

8. In property insurance, what does "pro-rata" refer to?

- A. A method for calculating policy limits**
- B. A method for calculating return premiums**
- C. A formula for determining policy pricing**
- D. A type of endorsement in policies**

"Pro-rata" in property insurance specifically refers to the process of calculating return premiums when a policy is canceled before its expiration date. This method ensures that the insured receives a premium refund that accurately reflects the portion of the policy period that has not been used. For instance, if a policyholder cancels a policy halfway through the term, the insurer would calculate a return premium based on the unearned portion of the premium. This approach is fair and equitable, as it allows policyholders to only pay for the coverage they actually utilized, rather than for the entire policy period. This practice is widely used in the insurance industry to maintain transparency and uphold customer trust as it gives a clear, proportional method for refunding premiums based on time not covered.

9. Which of the following non-owned vehicles would be covered for liability under a Personal Auto Policy?

- A. An auto owned by another family member but operated by the insured.**
- B. An auto owned and operated solely by another family member.**
- C. A company car regularly furnished to the insured.**
- D. A motorcycle owned by another family member.**

The correct choice reflects a key provision of a Personal Auto Policy (PAP). Under a PAP, liability coverage typically extends to non-owned vehicles that are operated by the insured. This includes situations where the vehicle is owned by a family member, provided that the insured is operating the vehicle. In this scenario, the coverage is applicable because the insured is responsible for their actions while driving the vehicle, thus aligning with the policy's intention to protect the insured against liabilities arising from vehicle operation. The importance of this distinction lies in the fact that the insurer will cover the liability exposures resulting from the use of this vehicle, which is essential for ensuring protection in everyday scenarios among family members. Other options present different situations that do not align with the coverage intent of a PAP. For instance, a vehicle owned by another family member but not operated by the insured is treated differently regarding liability. Similarly, company vehicles and motorcycles typically have specific considerations or exclusions related to standard personal auto policies. Thus, the emphasis remains on the relationship between the insured and the vehicle's ownership and operation.

10. Which factor is crucial when calculating "actual cash value" in property insurance?

- A. Replacement value of property**
- B. Negotiated price between buyer and seller**
- C. Depreciation associated with the property**
- D. Market demand for the property**

When determining "actual cash value" (ACV) in property insurance, the incorporation of depreciation is essential. Actual cash value is typically defined as the replacement cost of the property minus depreciation. This approach acknowledges that properties lose value over time due to wear and tear, age, and other factors. Therefore, depreciation provides a realistic assessment of the property's worth at the time of a loss. For example, if a homeowner has a television that originally cost \$1,000 and has depreciated to \$600, the actual cash value of the TV for an insurance claim would be \$600. This method ensures that the policyholder receives a payment that reflects the current value of their property rather than its original purchase price, which may no longer accurately represent its worth. In comparison, while other factors like replacement value, negotiated prices, or market demand can influence a property's value, they do not encapsulate the core principle behind calculating ACV. The focus on depreciation is what distinguishes actual cash value from other valuation methods.

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://psipropertycasualty.examzify.com>

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