

# PSI PROPERTY AND CASUALTY PRACTICE EXAM (SAMPLE)

## STUDY GUIDE



## SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

<https://psipropertycasualty.examzify.com>



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# Table of Contents

|                             |    |
|-----------------------------|----|
| Copyright .....             | 1  |
| Table of Contents .....     | 2  |
| Introduction .....          | 3  |
| How to Use This Guide ..... | 4  |
| Questions .....             | 5  |
| Answers .....               | 8  |
| Explanations .....          | 10 |
| Next Steps .....            | 15 |

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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 statement accurately describes the function of liability insurance?**

- A. To cover the costs associated with property loss only
- B. To provide coverage for legal expenses and claims against the insured
- C. To replace lost inventory due to fire
- D. To insure against losses caused by financial market fluctuations

**2. What does an insurance binder provide to the insured?**

- A. Permanent coverage until the policy is issued
- B. A temporary rate quote
- C. Temporary coverage until the formal policy is issued
- D. Legal representation during a claim

**3. How does liability insurance differ from property insurance?**

- A. Liability insurance covers legal obligations to third parties
- B. Property insurance covers medical expenses
- C. Liability insurance only covers vehicles
- D. Property insurance covers liability for accidents

**4. What coverage option is typically available for personal property under a homeowner's insurance policy?**

- A. Replacement cost coverage
- B. Full value coverage
- C. Actual cash value coverage
- D. Third-party liability coverage

**5. What is liability coverage in an insurance policy?**

- A. Coverage that protects against legal claims for injuries or damage to others
- B. Coverage specifically for personal loss
- C. Coverage for natural disasters
- D. Coverage for damage to one's own property

- 6. What type of insurance would you typically need to cover damage from a flood?**
- A. Standard homeowners insurance
  - B. Earthquake insurance
  - C. Flood insurance
  - D. General liability insurance
- 7. In liability policies, what does "personal injury" coverage protect against?**
- A. Claims related to physical harm
  - B. Accidental damage to property
  - C. Non-physical harm such as defamation or invasion of privacy
  - D. Injuries sustained on the insured's property
- 8. In auto insurance, what does "collision coverage" typically pay for?**
- A. Damage to other vehicles
  - B. Medical expenses from an accident
  - C. Damage to your vehicle from a collision
  - D. The cost of rental vehicles during repairs
- 9. On what basis is workers' compensation coverage rated?**
- A. Number of employees
  - B. Employer's payroll
  - C. Industry type
  - D. Hours worked annually
- 10. What is the main factor that affects the premium of a personal auto insurance policy?**
- A. The insured's credit score
  - B. The type of vehicle insured
  - C. The age of the insured
  - D. Previous claims history

## **Answers**

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

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## **Explanations**

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### 1. Which statement accurately describes the function of liability insurance?

- A. To cover the costs associated with property loss only
- B. To provide coverage for legal expenses and claims against the insured**
- C. To replace lost inventory due to fire
- D. To insure against losses caused by financial market fluctuations

*Liability insurance is designed primarily to cover legal costs and claims made against an insured individual or entity. This type of insurance is crucial because it protects against the financial impact of lawsuits, which can arise from a variety of situations, such as accidents, negligence, or other acts that result in injury or damage to third parties. By having liability insurance, the insured can address legal fees, settlements, or judgments that may follow these claims, thereby providing significant financial security. In contrast, other options relate to different types of insurance. Some cover specific risks associated with property damage, losses due to fire, or fluctuations in financial markets, none of which align with the primary function of liability insurance. This distinction is essential for understanding the specific purpose and utility of various insurance products.*

### 2. What does an insurance binder provide to the insured?

- A. Permanent coverage until the policy is issued
- B. A temporary rate quote
- C. Temporary coverage until the formal policy is issued**
- D. Legal representation during a claim

*An insurance binder is a crucial document in the insurance process, serving as a temporary proof of insurance coverage. It provides the insured with temporary coverage until the formal insurance policy is issued. This means that as soon as the binder is issued, the insured is protected under the terms agreed upon in the binder even before the official policy is finalized. In essence, while the formal policy is being prepared, the binder ensures that any risks covered under it are protected, allowing the insured to rest assured that they have coverage in place. This is particularly important in situations where immediate coverage is necessary, such as when purchasing a new home or automobile, where having coverage from day one is vital. In contrast, while an insurance binder may indicate some level of coverage, it does not provide permanent coverage or legal representation during a claim, nor does it serve simply as a temporary rate quote. The nature of the binder is specifically designed to bridge the gap between the initial application and the subsequent issuance of a comprehensive insurance policy.*

### 3. How does liability insurance differ from property insurance?

- A. Liability insurance covers legal obligations to third parties**
- B. Property insurance covers medical expenses
- C. Liability insurance only covers vehicles
- D. Property insurance covers liability for accidents

*Liability insurance is specifically designed to cover legal obligations that an individual or business has to third parties for bodily injury or property damage they cause. This type of insurance provides protection in the event that the policyholder is found legally responsible for an incident that affects others, which could include accidents, injuries, or damages. For example, if a driver causes a car accident that injures another person, their liability insurance would cover the injured party's claims. In contrast, property insurance primarily focuses on protecting the policyholder's own property from risks such as fire, theft, or damage. It does not extend to cover legal liabilities to third parties. The distinction is significant because liability insurance addresses the financial responsibilities arising from harm to others, whereas property insurance relates to safeguarding one's own possessions. This fundamental difference makes the first answer the correct and relevant aspect of how liability insurance differs from property insurance, illustrating the core purpose and function of these two distinct types of insurance coverage.*

#### 4. What coverage option is typically available for personal property under a homeowner's insurance policy?

- A. Replacement cost coverage
- B. Full value coverage
- C. Actual cash value coverage**
- D. Third-party liability coverage

*In a homeowner's insurance policy, personal property is commonly covered under actual cash value coverage. This type of coverage compensates the insured for the value of the personal belongings at the time of loss, which means the payout takes into account depreciation. For instance, if a television purchased for \$1,000 five years ago is damaged, the insurer would assess its current value, considering wear and tear, rather than the original purchase price. This approach ensures that the insured receives a fair replacement value for the items based on their age and condition, rather than an inflated amount. Other coverage options, while relevant in various contexts, do not generally apply to the standard treatment of personal property in homeowner's policies. Replacement cost coverage, which pays for the cost to replace the damaged item without factoring in depreciation, is an option but is typically an add-on rather than standard coverage for personal property. Full value coverage is not a standard term used in homeowner's insurance; it may imply a higher level of coverage but lacks specific definitions in policy terms. Third-party liability coverage pertains to protection against claims made by others for injury or damage to their property, which is separate from personal property coverage. Understanding these distinctions helps clarify how personal property is insured and the financial implications of claims made*

#### 5. What is liability coverage in an insurance policy?

- A. Coverage that protects against legal claims for injuries or damage to others**
- B. Coverage specifically for personal loss
- C. Coverage for natural disasters
- D. Coverage for damage to one's own property

*Liability coverage in an insurance policy is designed to protect the insured from legal claims arising from injuries or damages that they may cause to others. This type of coverage is essential for safeguarding an individual's financial interests, as it can cover legal costs, settlements, and judgments that may arise from lawsuits related to bodily injury or property damage caused by the insured's actions. For example, if someone is found responsible for an accident that injures another person or damages someone else's property, liability coverage would help cover the expenses incurred as a result of that liability. This protection is crucial in managing risks associated with everyday activities, such as driving a vehicle or owning a home, where the potential for causing harm to others exists. The incorrect options represent other types of coverage that do not align with the definition of liability coverage. Personal loss coverage pertains to the insured's own losses, while coverage for natural disasters typically refers to specific peril-related policies. Additionally, coverage for damage to one's own property is related to property insurance, which does not include protection against liabilities owed to other parties.*

**6. What type of insurance would you typically need to cover damage from a flood?**

- A. Standard homeowners insurance
- B. Earthquake insurance
- C. Flood insurance**
- D. General liability insurance

*Flood insurance is specifically designed to cover damage caused by flood events. Standard homeowners insurance typically does not include coverage for floods, which means that if a flood were to occur, homeowners can find themselves financially vulnerable without that specialized protection. Flood insurance provides a safety net for property owners, ensuring that they can repair or replace damaged structures and belongings after experiencing flood-related damages. In contrast, earthquake insurance protects against damages caused by earthquakes, which is a different natural disaster with its own specific risks. General liability insurance, on the other hand, focuses on protecting against claims of bodily injury or property damage to third parties, which does not extend to cover personal property losses caused by natural disasters like floods. Thus, the need for distinct flood insurance arises from the unique risks associated with flooding, confirming that it is the correct choice for protecting against such risks.*

**7. In liability policies, what does "personal injury" coverage protect against?**

- A. Claims related to physical harm
- B. Accidental damage to property
- C. Non-physical harm such as defamation or invasion of privacy**
- D. Injuries sustained on the insured's property

*Personal injury coverage in liability policies specifically addresses claims arising from non-physical harm. This includes issues like defamation, which involves damaging someone's reputation through false statements, invasion of privacy, which may occur if someone's personal space or affairs are intruded upon, and similar offenses that do not result in tangible injury but still cause significant harm to a person's dignity or well-being. This coverage is crucial as it protects individuals and businesses from legal actions that can arise from these types of situations, which can often be just as damaging as physical injuries. While physical harm and property damage are also important aspects of liability coverage, they fall under different categories within a policy. Personal injury coverage focuses solely on the non-tangible offenses that can lead to liability claims, making it a vital component of comprehensive liability insurance.*

**8. In auto insurance, what does "collision coverage" typically pay for?**

- A. Damage to other vehicles
- B. Medical expenses from an accident
- C. Damage to your vehicle from a collision**
- D. The cost of rental vehicles during repairs

*Collision coverage is designed to provide financial protection for your own vehicle when it is involved in a collision, regardless of who is at fault. This type of insurance pays for the repair or replacement costs of your vehicle after an accident that involves a crash with another vehicle or an object, such as a tree or guardrail. By covering damage to your vehicle from a collision, collision coverage allows you to recover from an accident without facing significant out-of-pocket expenses. It ensures that you can get back on the road quickly after an incident that damages your car, thus mitigating the financial impact it may have on you as a vehicle owner. Other options can be relevant in different contexts of auto insurance, but they do not define the purpose of collision coverage specifically.*

## 9. On what basis is workers' compensation coverage rated?

- A. Number of employees
- B. Employer's payroll**
- C. Industry type
- D. Hours worked annually

*Workers' compensation coverage is primarily rated based on the employer's payroll. This is because the insurance premium is calculated as a percentage of the total payroll, which takes into account the size of the workforce and the associated risk of injury within specific job classifications. Higher payroll typically results in a higher premium, reflecting the greater exposure to potential claims. This approach aligns directly with the principle that the more employees an organization has and the more they earn, the greater the potential for work-related injuries, necessitating comprehensive coverage. Thus, employers with larger payrolls may be seen as having increased exposure and risk, leading to a corresponding increase in their workers' compensation premiums. While factors like the number of employees, industry type, and hours worked can influence risks and may be used as part of the underwriting process, the central metric for calculating the actual rate is the payroll figure. This allows for a more equitable distribution of risk and ensures that premiums reflect the potential cost of claims.*

## 10. What is the main factor that affects the premium of a personal auto insurance policy?

- A. The insured's credit score
- B. The type of vehicle insured
- C. The age of the insured
- D. Previous claims history**

*The primary factor impacting the premium of a personal auto insurance policy is previous claims history. Insurance companies assess the risk associated with insuring an individual based on their past behavior, particularly how frequently they have filed claims in the past. A history of multiple claims can indicate higher risk, leading to increased premiums, as insurers anticipate potential future claims. When evaluating risk, insurers look for patterns in an applicant's previous claims. For instance, someone with a history of accidents or insurance claims may be deemed more likely to file additional claims in the future. This assessment directly influences the rates set for their auto insurance policy. The importance of claims history underscores the principle of risk assessment in underwriting and premium calculation. Insurers aim to mitigate their risks by charging higher premiums to those who have demonstrated a higher likelihood of necessitating payouts.*

## 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](mailto: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!

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