

FREE PERSONAL LINES PRACTICE EXAM

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1. An HO-3 is written with \$80,000 as the Coverage 'A' policy limit. If an unattached structure is destroyed by fire, what is the most the policy will pay:
 - A. \$ 8,000
 - B. \$24,000
 - C. \$40,000
 - D. \$80,000
2. On a HO-2, the insured must insure to value in order to avoid a co-insurance penalty. Insurance to value is defined as at least 80% of the dwelling's _____ at the time of loss:
 - A. Market value
 - B. Actual cash value
 - C. Replacement cost
 - D. Depreciated value
3. When moving from one home to another, which provision in a HO policy provides proper coverage at both locations:
 - A. Property removed
 - B. Personal property
 - C. Coverage away from home
 - D. Pro-rata distribution
4. On a DP-2 Broad Form dwelling fire policy, proper insurance to value should take into consideration all of the following EXCEPT:
 - A. The cost of materials to replace the dwelling at today's prices
 - B. The value of the land the dwelling is situated on
 - C. The cost of the labor expenses involved in rebuilding the dwelling
 - D. The value of any improvements that have been made to the dwelling
5. On a HO, which of the following residents of your household are not covered:
 - A. Spouse not named on the declarations page
 - B. The named insured's 23 years old daughter who is away at college
 - C. A 22 year old foreign exchange student living with the named insured
 - D. The named insured's 30 year old son

6. You have Personal Auto Policy with full coverage. Which of the following is not covered:
- A. Your mechanic, while test driving your care, negligently injures someone or damages their property
 - B. The theft of your car from the repair shop while it is in their care
 - C. Total loss of your car when the repair shop is destroyed by fire
 - D. Your car is vandalized while at the repair shop
7. On an 'unendorsed' HO-3, the personal property perils are:
- A. All risk
 - B. Broad form
 - C. Special form
 - D. Basic form
8. The main difference between the various HO forms is the:
- A. Theft coverage
 - B. Personal liability coverage
 - C. Personal property coverage
 - D. Amount of the deductible
9. A boat owner's policy has limitations on which of the following:
- A. Rivers and streams
 - B. Inland waterways
 - C. Great Lakes
 - D. Coastal waters
10. Which HO policy is known as the Comprehensive form:
- A. HO-2
 - B. HO-3
 - C. HO-5
 - D. HO-8
11. The Personal Liability Supplement that may be added to a DP policy by endorsement covers which of the following:
- A. Business liability
 - B. Personal injury liability
 - C. Bodily injury and property damage liability
 - D. Liability while operating a home day care

12. If you have a Coverage 'A' limit on your DP-3 of \$200,000, how much coverage will automatically apply to your personal property:
- A. None
 - B. \$ 20,000
 - C. \$100,000
 - D. \$ 40,000
13. On a DP-2 Broad form fire policy written to insure an owner/occupant, which coverage will pay the insured's hotel bills incurred after a covered loss:
- A. Coverage D - Rental value
 - B. Coverage A - Dwelling
 - C. Coverage E - Additional Living Expense
 - D. Coverage C - Personal Property
14. Which of the following is most likely eligible for a DP policy:
- A. A new owner-occupied home
 - B. A dwelling converted into a restaurant in an area going commercial
 - C. A 100 year old home located in a deteriorating neighborhood
 - D. A 5-plex, in which the owner occupies one of the units
15. Which HO personal property coverage is subject to special limits:
- A. Musical instruments
 - B. Paintings
 - C. Money
 - D. Animals, birds or fish
16. All of the following are true about the additional coverage provided under Section II of a HO policy for Loss Assessments EXCEPT:
- A. Coverage is provided up to \$1,000
 - B. Coverage is in addition to limits with no deductible
 - C. Assessments made by governmental bodies are covered
 - D. Assessments made by an association of property owners are covered
17. On a Personal Auto Policy, all of the following are true regarding Supplementary Coverages EXCEPT:
- A. They are provided for no extra premium charge and are in addition to limits
 - B. The policy will pay the insured up to \$200 per day for loss of earnings due to injuries incurred in an accident covered by the policy
 - C. The policy will pay up to \$250 for the cost of a bail bond required because of an accident resulting in BI or PD covered by the policy
 - D. The policy will pay the premiums on appeal bonds and interest accruing after a judgment is entered in any suit the insurer defends on the insured's behalf

18. All of the following are true regarding Personal Umbrella policies EXCEPT:
- A. They require the primary policies to have high 'retained' limits
 - B. They share claims pro-rata with the primary policies
 - C. They may cover claims not covered by the primary policies
 - D. They have a 'retention' requirement
19. On a PAP, collision is defined as all of the following EXCEPT:
- A. Rollover
 - B. Colliding with a bird or animal
 - C. Upset
 - D. Overturn
20. On a PAP, Other than Collision excludes all of the following EXCEPT:
- A. Flood
 - B. Freezing of your engine block
 - C. Mechanical breakdown
 - D. Wear and tear
21. Liability coverage on a PAP will cover which of the following:
- A. A non-owned vehicle furnished for regular use
 - B. A vehicle, located inside a racing facility, while competing in a speed contest
 - C. Operating of a non-owned golf cart
 - D. Operating a farm tractor on the highway
22. All of the following are excluded on the liability section of a PAP EXCEPT:
- A. Property damage to a garage rented to the insured
 - B. Property damage to property owned or being transported by the insured
 - C. Bodily injury to an employee of the insured during the course of employment
 - D. BI or PD to others caused by an insured while engaged in the automobile business
23. All of the following are true when the Dwelling under Construction endorsement is added to a Dwelling Property policy EXCEPT:
- A. The premium is reduced
 - B. The suspension of coverage for vandalism after 60 days vacancy does not apply
 - C. The policy limit is the completed value of the dwelling
 - D. Theft of building materials during the construction period is covered
24. A client insured his \$100,000 dwelling on a DP-2 Broad form dwelling fire policy for \$40,000. If he has a fire loss in the amount of \$10,000, how much will his policy pay:
- A. \$ 4,000
 - B. \$ 5,000
 - C. \$ 8,000
 - D. \$10,000

25. A customer bought a DP-2 Broad form dwelling fire policy with a limit of \$200,000 on 1-1-08, with a 4% inflation guard endorsement attached. If he had a total loss by fire on 7-1-08, what is the most the insurer would pay:
- A. \$200,000
 - B. \$204,000
 - C. \$208,000
 - D. \$210,000

ANSWERS & RATIONALES

1. **A** Coverage 'B' for unattached structures on an HO-3 is 10% of the Coverage 'A' dwelling limit and is payable in addition to the Coverage 'A' limit.
2. **C** On HO policies that have replacement cost coverage, the proper insurance to value requirement is 80% of the replacement cost of the dwelling at the time of the loss, not including the value of the land. Market value is whatever the house could be sold for, and has nothing to do with insurance valuation.
3. **B** Personal property in a newly acquired principal residence is not subject to the 10% extension of coverage for personal property away from home for 30 days from the time the insured begins to move the property there. In other words, the Coverage C limits apply at both locations while moving. Don't confuse this with removal, which covers property removed to a place of safety because it is endangered by a covered peril.
4. **B** Replacement cost coverage will pay for the full cost to replace the dwelling at today's prices, including materials, labor and improvements, but the not cost of the land, which cannot burn. Of course, the insurer will never pay more than the policy limit.
5. **C** Your spouse, even if not listed on the declarations page, is considered to be a named insured on your policy, if they reside with you. Your children, under age 24, who are away at college are also covered. Further, your 30 year son is also covered, since the policy says that any relative living with you is considered to be a person insured. However, persons 21 and over who are in your care are not covered.
6. **A** Your PAP will not provide coverage for BI or PD while it is being operated by some one who is in the auto business, which includes repairing, parking, or selling cars. The repair shop needs commercial Garage Liability insurance to cover this exposure. However, damage to your car is covered by your own policy if you have Physical Damage coverage. Your insurer will pay for the damage (less the deductible), and then subrogate to the repair shop who needs special Bailee's type coverage, which is known as Garage Keepers Legal Liability.
7. **B** Although an HO-3 is all risk on Coverage 'A' (dwelling) and Coverage 'B' (unattached structures), Coverage 'C' (contents) is named perils. These perils are the same perils that are included in the HO-2 Broad Form policy.
8. **C** HO policies have a lot in common. They all cover theft and personal liability in the same manner and all have a standard deductible of \$250. However, the personal property perils are different. The HO-1 only covers the basic perils. The HO-2 covers broad form perils, and HO-3 provides all risk coverage on both the dwelling and the outbuildings, although contents coverage is still named perils. The HO-5 is known as the 'comprehensive' form, since it is all risk on both the dwelling and the contents.

9. **D** A boat owner's policy will provide coverage while the boat is being operated on U.S. rivers, streams, lakes (including the Great Lakes) and inland waterways. However, there is no coverage outside the coastal limits of the U.S., although coverage does apply in Canada.
10. **C** The HO-5 is known as the Comprehensive form, since it is all risk on both the dwelling and the contents. The HO-3 is the most common homeowners policy. The HO-8 is used for older homes, where the replacement cost exceeds the market value.
11. **C** An 'unendorsed' DP policy does not cover personal liability. However, you can add the Personal Liability Supplement to a DP policy, to provide the insured with the same liability that is provided by a HO policy, which is BI & PD to others. However, Personal Injury liability, which covers libel, slander and defamation, is still not covered.
12. **A** Although an HO-3 automatically provides coverage for contents, no DP policy does. If you want contents coverage, you would have to list a limit on the declarations page and pay and additional premium.
13. **C** The DP-2 provides coverage for both Rental Value (which applies when a tenant moves out due to a covered loss) and Additional Living Expense (which applies when an owner/occupant moves out due to a covered loss). Both are 'indirect' coverages, and an insured may need both if the dwelling is a duplex. Remember, Additional Living Expense does not pay all of the insured's expenses, just those that are in addition to the normal expense of living at home.
14. **C** Commercial structures cannot be insured on DP policies. DP policies may only be used to insure 4 residential units or less. A newer owner-occupied home is eligible for a HO policy. Older homes in deteriorating neighborhoods are eligible for DP policies, as long as they have been properly maintained.
15. **C** On a HO, coverage for money is limited to \$200. Remember, on a DP policy, money is not covered at all. However, there are no special HO limits on musical instruments or paintings, although some insureds buy floaters to provide all risk coverage on these items. There is no need to place a special limit on animals, birds or fish, since they are excluded entirely.
16. **C** Section II (Liability) on a HO policy provides an Additional Coverage, in addition to limits with no deductible, of up to \$1,000 to cover the named insured's share of a loss assessment levied by an association of property owners. Assessments levied by governmental bodies are not covered.
17. **B** On a PAP, certain Supplementary Coverages are provided at no cost and are in addition to limits, including up to \$200 a day for the insured's loss of earnings if the insurer requires the insured to attend a hearing or trial. The insured's injuries are not covered.
18. **B** Personal Umbrellas are also known as 'excess' limits liability policies, written over and above the insured's primary personal liability coverages, such as PAP, HO, Boat or Recreational Vehicle policies. The primary policies are required to have uniform high limits, often around \$300,000, which is known as the 'retained' limit. In other words, the primary policy pays first, then the umbrella takes over, if needed. However, if none of the

- primary policies provide any coverage, then the umbrella may become primary, subject to a 'retention' requirement, which is like a deductible.
19. **B** On a PAP, colliding with a bird or animal is considered to be 'Other than Collision' (OTC) coverage, instead of collision. These types of collisions are considered to be unavoidable, and since OTC historically had a lower deductible than collision, coverage is provided there.
 20. **A** Although flood is excluded on DP & HO policies, it is covered by a PAP under Other than Collision.
 21. **C** The liability section of a PAP excludes vehicles that have fewer than 4 wheels (motorcycles), those designed mainly for use off public roads (farm tractors), non-owned vehicles furnished for regular use and vehicles competing in or preparing for an organized speed contest within a facility designed for racing. However, there is no exclusion for operating a non-owned golf cart.
 22. **A** The liability section of a PAP excludes property damage to property rented to, used by, or in the care of an insured UNLESS the property damage is to a rented residence or rented private garage.
 23. **D** A Dwelling under Construction endorsement may be added to any DP form. Although the policy limit is the completed value of the dwelling, the premium is discounted since it is based upon the average value of the dwelling, rather than the policy limit. A dwelling under construction is not considered vacant, so there is no suspension of coverage for vandalism. However, there is no coverage for theft of building materials.
 24. **B** A DP-2 Broad form dwelling policy has replacement cost coverage on the dwelling and out buildings, which requires the insured to insure at least 80% to value. If his dwelling had a replacement cost of \$100,000, he should have carried a policy limit of at least \$80,000 to avoid a co-insurance penalty. Since he only carried a limit of \$40,000, he is way under-insured, so the company will only pay 4/8ths of the claim, or \$5,000.
 25. **B** The inflation guard endorsement actually applies proportionately throughout the 1 year policy period. So, since the endorsement called for a 4% annual increase, half of that increase would have already occurred by 7-1-08, which is half way through the policy period. Since 2% of \$200,000 is \$4,000, the most the insurer would pay as of 7-1-08 would be \$204,000. At renewal, the policy limit will go to \$208,000 and the premium will increase.