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PRACTICE QUESTIONS



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Exam : C11

Title : Principles and Practice of Insurance

Version : DEMO

1. Which risk could be insured by chattel coverage?

- A. Trip cancellation for a honeymoon
- B. A mobile home belonging to a family
- C. A half-court shot contest at a basketball game
- D. Errors and omissions for a lawyer's office

Answer: B

Explanation:

Chattel refers to movable personal property (as opposed to real property/land). Insurance policies that cover chattels protect items such as furniture, machinery, mobile homes, and other movable property. A mobile home is specifically recognized as chattel because it is transportable and not permanently affixed to land. Therefore, a mobile home qualifies for chattel insurance coverage.

Option A is a travel insurance risk.

Option C is an event prize indemnity risk, not related to chattel.

Option D is professional liability (errors & omissions), which covers negligence, not movable property.

Thus, the risk insurable under chattel coverage is a mobile home, making B the correct choice.

2. Why would a policyholder use an intermediary?

- A. They represent all insurers
- B. They have unlimited liability
- C. They help to identify clients' insurance needs
- D. They make reinsurance arrangements for clients

Answer: C

Explanation:

Intermediaries—such as brokers and agents—play an essential role in helping consumers navigate insurance products. One of their primary functions is to identify the client's needs, assess exposures, and recommend suitable insurance solutions. This includes advising on appropriate limits, optional coverages, deductibles, and risk management considerations. This consultative role is fundamental to the value they provide.

Option A is incorrect because brokers represent multiple insurers but not all insurers; agents often represent only one.

Option B is incorrect—intermediaries do not have unlimited liability; their liability relates to negligence or errors in service.

Option D is incorrect—reinsurance arrangements are made between insurers and reinsurers, not individual clients.

Therefore, the correct reason a policyholder uses an intermediary is C.

3. A commercial brokerage failed to advise the insurer of a client's modified risk. The insurer discovered this only at the time of a major loss and denied the claim due to material change.

How will the client MOST LIKELY proceed?

- A. Pay for the loss, and cancel the policy backdated to before the loss
- B. Pay for the loss, and oblige the brokerage to reimburse the deductible
- C. Take legal action against the insurer, stating the insurer knew the full risk
- D. Take legal action against the brokerage, stating it had a contractual responsibility to disclose the material change

Answer: D

Explanation:

Brokers act as agents of the insured, meaning they owe a professional duty to advise the insurer of any material change in risk. A material change is any alteration that significantly affects the underwriting assessment of the policy. If a broker fails to report such a change, the insurer is legally entitled to void coverage or deny a claim because it was not given full information to properly rate or accept the risk. When a claim is denied due to the broker's failure—not the insured's intentional nondisclosure—the insured will typically seek compensation by suing the brokerage for negligence. The brokerage has a legal duty of care to ensure proper communication with insurers on behalf of the client.

Options A and B make no sense because the insurer will not voluntarily pay after a justified denial.

Option C is unlikely, because the insurer can demonstrate that it never received notification of the change. The correct and realistic recourse is legal action against the brokerage, making D correct.

4. Whose signatures would usually appear on the risk's policy?

Name	Position
Simone	Owner of liability risk
Denis	Broker
Alan	Administrative Manager of insurer
Cathy	Chief Executive Officer of insurer

A. Alan and Cathy

B. Denis and Cathy

C. Simone and Alan

D. Denis and Simone

Answer: A

Explanation:

A policy is a legal contract issued by the insurer, not the broker and not the policyholder.

Therefore, the individuals who sign the policy are usually the insurer's authorized signing officers.

These are typically:

The CEO or President, and Another authorized senior officer, such as the Administrative Manager or Underwriting Officer.

In the table:

Cathy (CEO) is an authorized signer.

Alan (Administrative Manager) is also an authorized insurer representative.

The insured (Simone) does not sign the actual policy document; their signature is not required for the policy to be valid. The broker (Denis) also does not sign policies; he facilitates placement but is not a party to the contract.

Thus, the correct pair is Alan and Cathy.

5. Which statement best describes a valued contract?

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- A. The policy pays the full cost of replacing items even if this amount exceeds policy limits
 - B. The insured can reject settlement offers and force a higher payout
 - C. Settlements involve periodic payments due to the nature of valuation
 - D. Settlements are based on a predetermined amount agreed upon at contract formation

Answer: D

Explanation:

A valued contract is one in which the insurer and insured agree in advance on the value of the insured item. If a total loss occurs, the insurer pays this predetermined amount, regardless of the item's actual cash value at the time of loss. This type of contract is common in areas such as fine arts, antiques, life insurance, or items whose value is difficult to measure after loss. The purpose is to eliminate disputes over valuation after a loss occurs.

Option A incorrectly describes replacement cost coverage.

Option B misstates contract rights; insureds cannot force payouts beyond contractual terms.

Option C describes structured settlements, not valued contracts.

Thus, the correct definition is D.