

Updated CPCU-500 CBT - Guaranteed CPCU-500 Questions Answers

CPCU 500 Exam Questions and Answers 2023

Risk - Answer- the uncertainty about outcomes, with the possibility that some of the outcomes can be negative. Quantified by knowing the probability of the possible outcomes

Probability - Answer- the likelihood that an outcome or event will occur. Probabilities are stated as a decimal figure, a percentage, or a fraction.

What are the 2 elements associated with risk? - Answer- uncertainty of outcome + possibility of negative outcome

Pure Risk - Answer- a chance of loss or no loss, but no chance of gain.

Speculative Risk - Answer- a chance of gain or loss (investment).

Price Risk - Answer- the uncertainty over the size of cash flows resulting from possible changes in the cost of raw materials and other inputs (lumber, gas, or electricity)

Credit Risk - Answer- the risk that customers and other debtors will fail to make promised payments.

Distinguish Diversifiable vs. Nondiversifiable Risk - Answer- Diversifiable risks can be managed by spreading (such as purchasing multiple businesses). Nondiversifiable risks are correlated so that their gains or losses tend to occur simultaneously rather than randomly.

What are the 4 quadrants of risk? - Answer- Hazard, Operational, Financial, and Strategic risk

Hazard - Answer- a condition that increases the frequency or severity of a loss.

What are the classifications of risk? - Answer- pure vs. speculative, subjective vs. objective, diversifiable vs. nondiversifiable.

The quadrants of risk focus on... - Answer- the source of risk and who has traditionally managed it

The classifications of risk focus on... - Answer- some aspect of the risk itself

3 components of Financial consequences or risk? - Answer- Expected cost of losses or gains. Expenditures on risk mgmt. Cost of residual uncertainty.

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The Institutes Becoming a Leader in Risk Management and Insurance Sample Questions (Q20-Q25):

NEW QUESTION # 20

Risks that can result in either a loss, no loss, or a gain are known as

- A. Pure risks.
- **B. Speculative risks.**
- C. Hazard risks.
- D. Strategic risks.

Answer: B

Explanation:

CPCU 500 clearly distinguishes between pure risk and speculative risk, which is foundational in Understanding Risk Essentials.

A speculative risk is defined as a situation in which there is a possibility of loss, no loss, or gain. These risks are typically associated with business, investment, or financial decisions where outcomes can move in either direction depending on market forces, management decisions, or economic conditions.

For example, investing in a new product line, purchasing real estate for appreciation, or entering a new market all involve speculative risk because the result could be profit, break-even performance, or financial loss.

Because speculative risks include the possibility of gain, they are generally not insurable in traditional property-casualty insurance. Insurers are primarily designed to handle risks that involve accidental loss, not entrepreneurial or market-driven opportunities for profit.

In contrast, pure risk involves only the possibility of loss or no loss, such as a fire damaging property or an employee being injured in an accident. There is no opportunity for gain from the occurrence of the event itself.

The other options do not fit CPCU 500 definitions. Strategic risk refers to risks arising from business decisions affecting long-term objectives. Hazard risk is not a standard CPCU 500 classification in this context. Therefore, the correct term for risks involving potential gain is speculative risk.

NEW QUESTION # 21

No-Flame Company installs fire suppressant systems in newly constructed buildings. No-Flame has an occurrence version of the Commercial General Liability Coverage Form. The first day the owners occupied a new building, the fire suppressant system installed by No-Flame malfunctioned. The building owner sustained personal property damage, and the chemicals released by the system caused minor injuries to three of the building owner's employees. No-Flame publicly accused the building owner of setting the suppressant system off in order to collect the insurance proceeds, although No-Flame knew that its systems had defects. The owner sued No-Flame for damages. Which one of the following statements best describes how No-Flame's CGL insurer will respond to the lawsuit?

- A. The insurer will deny the entire lawsuit because the allegations involve both bodily injury and personal and advertising injury.
- B. The insurer will cite the exclusion under Coverage A Bodily Injury and Property Damage Liability that is titled Expected or Intended Injury.
- **C. The insurer will cite the exclusion under Coverage B Personal and Advertising Injury Liability related to injury arising out of oral or written publication of material done by the insured with knowledge of its falsity.**
- D. The insurer will cite the exclusion under Coverage A Bodily Injury and Property Damage Liability that is titled Damage to Impaired Property or Property Not Physically Injured.

Answer: C

NEW QUESTION # 22

Foster Plumbing dug a hole in the street to run a water pipe from the main line to a new home. Foster planned to fill in the hole the next day. No barriers were erected, and Joe drove his car into the hole. Joe was injured and his car was destroyed. Joe sued Foster for damages. Foster's liability to Joe arises out of Foster's

- A. Products and completed operations liability exposure.
- B. Employers' liability exposure.
- C. Absolute liability exposure.
- **D. Premises and operations liability exposure.**

Answer: D

Explanation:

CPCU 500 explains liability loss exposures by focusing on whether the injury arises from an insured's ongoing operations, conditions at a job site, or from work that has been completed. Premises and operations liability applies when bodily injury or property damage occurs during the insured's current work activities or due to unsafe conditions created by those activities before the work is finished. In this scenario, Foster Plumbing is actively performing work (digging and installing a water pipe). The hole was left open overnight with no barriers, creating a hazardous condition in a public roadway. Joe's injury and vehicle damage occurred before the job was completed and resulted directly from the way Foster conducted (or failed to safeguard) its ongoing operations. That is the hallmark of a premises and operations exposure: third-party injury/property damage caused by negligence in performing work or maintaining a safe work area.

Option C is incorrect because products and completed operations applies after the work has been finished and put to its intended use—such as a faulty installation causing damage later. Here, the loss occurred during the project, not after completion. Option D is incorrect because employers' liability involves claims by employees, and Joe is a third party. Option A (absolute liability) applies only in special situations (often statutory or ultrahazardous activities) and is not the standard basis here; this is ordinary negligence tied to operations.

NEW QUESTION # 23

John owns an office building that he leases to Tim. John's insurer, Top Insurance, has relinquished its right to collect from Tim if Tim negligently causes a fire that damages John's building. Top Insurance's relinquishment of its right is known as

- A. Indemnification
- B. Subrogation
- C. Contribution
- **D. Waiver of subrogation**

Answer: D

Explanation:

Under CPCU 500, the concept being tested falls within The Insurance Solution, specifically the insurer's rights after paying a loss. Normally, when an insurer indemnifies its insured for a covered loss, it acquires the insured's legal right to recover from any responsible third party. This right is called subrogation. Subrogation supports the principle of indemnity by preventing the insured from collecting twice (once from the insurer and again from the negligent party) and by allowing the insurer to pursue recovery from the party legally responsible for the damage.

In this scenario, Tim negligently causes a fire that damages John's building. Ordinarily, after paying John for the loss, Top Insurance would have the right to pursue Tim to recover the claim payment through subrogation.

However, the question states that the insurer has relinquished its right to collect from Tim. The voluntary surrender of the insurer's subrogation rights is called a waiver of subrogation.

A waiver of subrogation is often agreed to by contract, particularly in commercial leases and construction agreements, to preserve business relationships and reduce litigation among parties who work closely together.

It does not eliminate coverage; rather, it prevents the insurer from pursuing the specified third party after paying the claim.

NEW QUESTION # 24

John works for J & J Plumbing. One day while driving a company truck from one customer's house to another customer, he went through a stop sign and struck another vehicle. John only suffered a minor injury, but the driver of the other vehicle was seriously injured and the car was totaled. Which one of the following J

& J Plumbing commercial liability coverages would cover the other driver's medical expenses and the damage to the vehicle?

- A. Employers liability insurance
- B. Workers compensation insurance
- **C. Commercial auto liability insurance**
- D. Commercial general liability insurance

Answer: C

Explanation:

In CPCU 500, choosing the correct liability coverage depends on identifying the source of liability and the triggering exposure. Here, the loss arises from the ownership, maintenance, or use of an auto—John was operating a company truck on public roads and caused an accident that injured a third party and damaged the third party's vehicle. Those are classic third-party bodily injury and property damage claims resulting from auto operations.

Commercial auto liability insurance is specifically designed to respond to these exposures. It covers the insured business for sums it is legally obligated to pay because of bodily injury and property damage caused by an accident resulting from the use of a covered auto. In this scenario, the other driver's medical expenses relate to bodily injury, and the totaled vehicle is property damage—both fit squarely within commercial auto liability.

The other options do not apply. Commercial general liability typically excludes bodily injury and property damage arising out of the ownership or use of an auto, because that exposure is intended to be handled by the auto policy. Workers compensation covers job-related injuries to employees (John's minor injury), not injuries to third parties. Employers liability is the workers compensation "gap" coverage for certain employee injury lawsuits, again focused on employee claims rather than third-party auto losses. Therefore, the correct coverage for the other driver's injury and vehicle damage is commercial auto liability.

NEW QUESTION # 25

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