

# 2026 The Institutes High Pass-Rate Exam CPCU-500 Questions Answers

## CPCU 500 2023 Exam Questions with Correct Answers

Key questions in determining insurable interest - Answer-1. What is insurable interest  
2. When must insurable interest exist  
3. Why require insurable interest  
4. What is the legal basis of insurable interest  
5. What happens when insurable interest overlap

Problems associated with maintain insurance to value - Answer-1. The amount of insurance required to maintain insurance to value is based on the property's value at the time of loss, but the limit is chosen at the time of policy inception  
2. The insured often selects the policy limits based on his best guess, not on a valid appraisal.  
3. Even with an appraisal, the true insurable value at the time of loss cannot be measured exactly until the property is actually repaired or replaced  
4. Values fluctuate over time

Insurance buyers can minimize those four problems by - Answer-1. Using a professional appraiser to determine the current replacement cost value and then reappraising the property every few years  
2. Adjusting the appraisal annually using indexes and/or a record of additions and deletions  
3. Reviewing and revising limits periodically  
4. Using appropriate coverage options such as  
Agreed value optional coverage  
Inflation guard protection  
Peak season endorsement

Approaches used in property insurance to value property - Answer-1. actual cash value  
2. replacement cost  
3. agreed value approach  
4. functional value

Valuation of Liability Losses are typically based on - Answer-1. The relevant policy provisions and  
2. The extent of the bodily injury and/or property damage to others

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## The Institutes Becoming a Leader in Risk Management and Insurance Sample Questions (Q11-Q16):

### NEW QUESTION # 11

Gulford's is a large retail store chain with locations throughout the U.S. The operations are divided into three different profit centers. Each center has a separate executive-level position and management team. The profit centers are based on type of product and include apparel, electronics, and grocery. Which one of the following types of organizational structure has Gulford selected?

- A. Functional structure
- B. Flat structure
- C. Cost leadership structure
- **D. Multidivisional structure**

**Answer: D**

Explanation:

CPCU 500 links organizational design to strategy execution. When a company grows, diversifies, or serves distinct markets, leaders often shift from a single centralized structure to one that creates accountability by business line. A multidivisional structure (M-form) organizes the company into separate divisions—often by product line, geography, or customer segment—where each division operates as a profit center with its own leadership and management team. Corporate leadership typically sets enterprise strategy, allocates capital, and establishes governance, while division leaders are responsible for performance within their lines of business. Gulford's arrangement matches this definition precisely. The company is divided into three product-based profit centers (apparel, electronics, grocery). Each has a separate executive-level role and dedicated management team, which signals decentralized operational control and division-level accountability for revenue, expenses, and profitability. This is the hallmark of a multidivisional structure.

The other options do not fit. A functional structure organizes by functions such as marketing, finance, operations, and HR, typically with centralized leadership rather than separate profit-center divisions by product. A flat structure minimizes layers of management and is inconsistent with multiple executive-level division heads. "Cost leadership structure" is not an organizational structure type; it is a competitive strategy approach. Therefore, CPCU 500 reasoning supports multidivisional structure as the correct choice.

### NEW QUESTION # 12

The direct effects from labor union strikes fall under which one of the following general categories of risk sources?

- A. Natural risk sources
- B. Economic risk sources
- **C. Human risk sources**
- D. Catastrophic risk sources

**Answer: C**

Explanation:

CPCU 500 groups sources of risk into broad categories to help risk professionals identify where uncertainty originates and what types of controls may be effective. One of these categories is human risk sources, which arise from human actions, decisions, behavior, or conflict. These can be intentional or unintentional and include acts or conditions created by people that can disrupt operations or cause loss.

A labor union strike is a direct result of human behavior and organized human decision-making. The immediate consequences—work stoppages, reduced productivity, operational disruption, delayed shipments, and potential contract penalties—stem from a collective action by employees (and related negotiations with management). Because the trigger and the effects are rooted in people and their actions, CPCU 500 classifies strikes as human risk sources.

The other categories do not match the direct cause. Natural risk sources involve weather and geological events such as hurricanes, floods, and earthquakes. Catastrophic risk sources generally refer to large-scale events that produce severe, widespread losses (often natural disasters, terrorism, or major systemic events), not routine labor actions. Economic risk sources relate to changes in the economy or markets such as inflation, interest rates, unemployment, or recessions. While a strike can have economic impacts, the

question asks about the direct effects and the source of the risk, which is the human action of striking rather than broader economic conditions.

### NEW QUESTION # 13

Paradox Contractors has been invited to bid on a major bridge project in Maryland. Senior management believes that the successful completion of this project could place the organization in the position to meet its strategic goal of being a premier bridge contractor in the Mid-Atlantic region. They also know that there will be a lot of competition for the project, and their bid will have to be aggressive. Before bidding on the project, senior management met with project managers and suppliers to understand their perspectives on the most pressing risks. Paradox Contractors is completing which one of the following essential activities of the risk management process?

- A. Analyze risks
- B. Monitor risks
- C. Treat risks
- D. Identify risks

**Answer: D**

Explanation:

In CPCU 500, the risk management process is commonly framed around essential activities such as identifying risks, analyzing risks, and treating risks (with ongoing monitoring and communication throughout). The facts emphasize that senior management met with project managers and suppliers to understand their perspectives on the most pressing risks before bidding. This is characteristic of the risk identification activity.

Risk identification focuses on finding and describing what could prevent the organization from achieving objectives. It is typically performed by gathering input from stakeholders, reviewing prior loss and project data, using checklists, conducting interviews, holding workshops, and mapping processes. Importantly, it looks broadly across operational, financial, legal, contractual, schedule, safety, supply chain, and reputational risks—especially critical in construction bids where a single overlooked exposure can turn an "aggressive" price into an unprofitable project.

Risk analysis comes after identification and involves evaluating likelihood and impact, prioritizing risks, and understanding contributing causes and controls. Risk treatment comes later still and involves selecting responses such as avoiding, reducing/controlling, transferring, or retaining risk (for example, contract terms, subcontracting strategy, insurance, contingencies, and safety plans). Because Paradox is still gathering viewpoints to surface and define the key exposures, they are in the identify risks stage, setting the foundation for later analysis and treatment decisions.

### NEW QUESTION # 14

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

**Answer: A**

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 # 15

The Growers Insurance Company has begun a SWOT analysis because it has failed to meet its loss ratio goals for three consecutive years. Growers has various strategies in place that have proven successful in the past.

Which of the following would be considered a strength that Growers might be able to capitalize on to address its problem?

- A. Competition is continuing to drive insurance rates down.
- **B. Growers' underwriting staff is very experienced.**
- C. Growers' surplus is adequate for the present.
- D. Various markets have been identified for growth.

**Answer: B**

Explanation:

In CPCU 500, SWOT is used as a strategic decision-making tool to clarify what an organization can control versus what it must respond to. The key rule is that Strengths and Weaknesses are internal (resources, capabilities, culture, processes), while Opportunities and Threats are external (market conditions, competitors, regulation, economic forces). Because Growers is trying to correct an unfavorable loss ratio, the best

"strength" should be an internal capability that can directly improve underwriting performance.

Option B fits this definition. An experienced underwriting staff is an internal, controllable capability that can be leveraged to improve results through better risk selection, stronger pricing judgment, tighter terms and conditions, improved portfolio management, and more effective corrective action (for example, identifying segments driving loss experience and applying targeted underwriting changes). These actions are directly connected to managing frequency/severity and restoring underwriting profitability.

By contrast, option A is an external market force driven by competitors and is typically a threat because it pressures pricing downward. Option D describes a potential external opportunity (growth markets) rather than an internal strength. Option C is internal, but "adequate surplus" is more of a financial condition than a distinctive capability-and it does not directly address the underwriting drivers causing loss ratio deterioration as strongly as underwriting expertise does.

### NEW QUESTION # 16

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