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# Prelicensing Education Educational Objectives

## California Commercial Insurance Examination

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### Overview

Section 1676 of the California Insurance Code (CIC) and Section 2187.4 (a) and (b) of the California Code of Regulations requires that the Personal Lines Broker-Agent licensee, who would like to apply to become a Property Broker-Agent and Casualty Broker-Agent licensee, is required to complete a minimum of 20-hours prelicensing classroom study on commercial insurance. The licensee will not be required to repeat the 12 hours of ethics and code prelicensing classroom study.

In addition, Section 1677 of the California Insurance Code requires the Commercial Insurance Examination is of sufficient scope to satisfy the Insurance Commissioner that an applicant has sufficient knowledge of insurance and insurance laws.

Basic commercial insurance knowledge is required for Personal Lines Broker-Agents to know to increase their authority to act in the capacity of a Property Broker-Agent and Casualty Broker-Agent.

- (1) The most specific knowledge is required in the following areas:
  - \* Commercial Property;
  - \* Commercial Automobile
  - \* Casualty Insurance;
  - \* Businessowners Policy (BOP)
  - \* Commercial Package Policies;
  - \* Inland and Ocean Marine Coverages;
  - \* Crime Coverages;
  - \* Surety Bonds and General Bond Concepts; and,
  - \* Umbrella and Excess Liability Policies.
  
- (2) To a lesser degree, knowledge is required of:
  - \* Workers' Compensation; and,
  - \* A general understanding of all other lines of insurance.

As Section 1749.1(b) of the California Insurance Code states, in part, that no prelicensing or continuing education course shall include sales training, motivational training, self-improvement training, or training offered by insurers or agents regarding new products or programs. The license examination shall also exclude those items.

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# Prelicensing Education Educational Objectives

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## California Commercial Insurance Examination

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### **Educational Objectives**

The educational objectives are derived from the curriculum outline contained in Title 10, Chapter 5, Subchapter 1, Article 6.5, Section 2187.5 of the California Code of Regulations.

### **The Examination**

The Personal Lines Broker-Agent licensee who would like to apply to become a Property Broker-Agent and Casualty Broker-Agent licensee is required to take the California Department of Insurance's Commercial Insurance examination. The Commercial Insurance examination contains 60 multiple-choice questions. The examinees, without any aids (e.g. reference materials, electronic aids), are allowed one and one-half (1½ hours) to answer the 60 question multiple-choice examination.

All questions are based on "standard" policies; current editions of Insurance Services Office (ISO) policies will be used as the standard where available.

The objectives for Section I.B4 – Property Indirect Damage Insurance are based on the Business Income Coverage form.

The California Department of Insurance's examinations are administered at the following locations beginning at 8:30 a.m. and 1:00 p.m., Monday through Friday, except on state holidays:

#### **Sacramento:**

California Department of Insurance  
Examination Site  
320 Capitol Mall, 1st Floor  
Sacramento, California 95814

#### **Los Angeles:**

California Department of Insurance  
Examination Site  
300 South Spring Street, North Tower,  
Suite 1000  
Los Angeles, California 90013

#### **San Francisco:**

California Department of Insurance  
Examination Site  
45 Fremont Street, 22nd Floor  
San Francisco, California 94105

Check-in is at 8:10 a.m. for the 8:30 a.m. examination, and check-in is at 12:40 p.m. for the 1:00 p.m. examination.

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# Prelicensing Education Educational Objectives

## California Commercial Insurance Examination

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PSI's test centers are located at the following locations:

Anaheim	El Monte	Sacramento	Ventura
Atascadero	Fresno	San Diego	Visalia
Bakersfield	Hayward	San Francisco	Walnut Creek
Burbank	Redding	Santa Clara	
Carson	Riverside	Santa Rosa	

The check-in times and driving directions to PSI's test centers are listed on pages 3, 4, and 5 in the [Candidate Information Bulletin](#).

For additional information on license examinations (i.e. online examination scheduling, fingerprint requirements, examination admittance, forms of identification, check your scheduled examination date, check your examination results), please review the following link:

<http://www.insurance.ca.gov/0200-industry/0010-producer-online-services/0200-exam-info/index.cfm>

### **Candidate Information Bulletin**

The Candidate Information Bulletin (CIB) provides detailed information on how to prepare for your license examination, prelicensing education requirements, examination site procedures, sample examination questions, test taking strategies, and driving directions to the California Department of Insurance's examination sites and PSI's test centers that are located throughout California. Please review the following link:

<http://www.insurance.ca.gov/0200-industry/0020-apply-license/0100-indiv-resident/CandidateInformation.cfm>

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# Prelicensing Education Educational Objectives

## California Commercial Insurance Examination

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### Table of Contents

- I. Commercial Insurance Coverages (100 percent of exam questions)
  - A. Insurance Services Office (ISO) Commercial Lines Insurance Programs
  - B. Property Insurance
    - 1. Commercial Property
      - a. General Concepts
      - b. Building and Personal Property Coverage Form
      - c. Causes of Loss Form(s)
      - d. Property Indirect Damage Insurance
      - e. Other Endorsements and Coverages
    - 2. Inland Marine
    - 3. Equipment Breakdown Protection Coverage (aka Boiler and Machinery)
    - 4. Commercial Crime
  - C. Casualty Insurance
    - 1. Commercial General Liability (CGL)
      - a. General Concepts
      - b. CGL Coverage Forms (Occurrence and Claims-Made)
      - c. Professional Liability
      - d. Management (Directors and Officers) Liability
      - e. Employment Practices
    - 2. Commercial Auto
    - 3. Farm
    - 4. National Flood
    - 5. Ocean Marine
    - 6. Surety Bonds and General Bond Concepts
    - 7. Umbrella and Excess Liability
    - 8. Workers' Compensation
  - D. Businessowners Policy (BOP)
    - 1. General Concepts
    - 2. Property Coverages
    - 3. Liability Coverages

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# Prelicensing Education Educational Objectives

## California Commercial Insurance Examination

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- I. Commercial Insurance Coverages (100 percent of exam questions)
  - A. Insurance Services Office, Inc. (ISO) Commercial Lines Insurance Programs
    - 1. Be able to identify:
      - a. a description of the modular concept as used in the Commercial Package Program; and,
      - b. the major common modules used in all policies.
    - 2. Be able to identify and apply definitions of the following Common Policy Conditions: Cancellation, Changes / Examination of Your Books and Records / Inspections and Surveys / Premiums / Transfer of Rights and Duties / First Named Insured.
    - 3. For package policies, be able to identify:
      - a. the minimum requirements for a package policy (modules and coverages);
      - b. the advantages to insureds; and,
      - c. that the same coverages may be written on a monoline basis.
    - 4. Be able to identify and know the importance of understanding the California Amendatory Endorsements
    - 5. "you," "your," and "we,"
      - a. Know that "you" in a commercial property policy means named insured;
      - b. Know that "your" refers to only the named insured(s) shown in the declaration; and,
      - c. know that "we," "us" and "our" refer to the insurer providing insurance.
  - B. Property Insurance
    - 1. Commercial Property
      - a. General Concepts - Be able to identify and apply definitions from the Commercial Property Conditions.
      - b. Building and Personal Property Coverage Form
        - i. Be able to recognize the principal types of Covered Property and the valuation basis for:
          - 1) Building (dwellings not eligible);
          - 2) Your Business Personal Property including improvements and betterments; and,
          - 3) Personal Property of Others; e.g. know that under the Commercial Property Coverage Form, personal property of others is excluded if the property is being transported by the insured.
        - ii. Be able to identify the purpose of a Value Reporting Endorsement.
          - 1) know that the Value Reporting Form may be used to modify the insurance provided by the Building and Personal Property Coverage Form; and,
          - 2) know that 75 percent is the most that will be paid in the

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# Prelicensing Education Educational Objectives

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## California Commercial Insurance Examination

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- event of a loss if the insured has made no reports of value as required.
- iii. Be able to recognize:
    - 1) additional coverages; and,
    - 2) coverage extensions.
  - iv. Under Loss Conditions - Vacancy, be able to recognize:
    - 1) the definition of vacancy; and understand the definition for the tenancy of the vacancy; e.g. know that a building is considered vacant when there is insufficient business personal property present to conduct customary operations and/or 70 percent of the total square footage is not rented or used to conduct customary operations;
    - 2) what effect this condition has on the policy; e.g. a vandalism loss under a Building and Personal Property Coverage Form is excluded if the insured building has been vacant for more than 60 consecutive days; and,
    - 3) the effects of attaching a vacancy permit to a policy;
      - a) Know the perils in the vacancy permit endorsement include vandalism and attempted theft, sprinkler leakage and building glass breakage; and,
      - b) If a vacancy permit endorsement is added to a Building and Personal Property Coverage form, be able to recognize that the vacancy condition under the basic policy is waived during the period.
  - v. Be able to:
    - 1) identify reasons for coinsurance (advantages / disadvantages to the insured); and,
    - 2) apply coinsurance to a described loss.
  - vi. Be able to recognize for coinsurance purposes, the fair market value may be used to determine the actual cash value of a commercial building.
- c. Causes of Loss Form(s)
- i. Be able to recognize situations in which the rights of a mortgage holder are protected, even if an insured's claim is denied.
  - ii. Be able to apply the effect of the exclusion that eliminates concurrent causation from applying to certain perils.
  - iii. Be able to identify the purpose of the Basic, Broad, and Special Causes of Loss Forms and the major differences between the perils insured; e.g. know for instance that Windstorm is a covered peril under the Basic, Broad, and Special Cause of Loss Form(s). Other coverages may not be covered under all three forms.
  - iv. Know that most of the exclusions are contained in the Causes of Loss

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# Prelicensing Education Educational Objectives

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## California Commercial Insurance Examination

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Form(s) of the Commercial Property policy.

- a) In the Causes of Loss coverage part(s), Section B - Exclusions, be able to identify the following excluded loss causes:
  - 1) ordinance or law;
  - 2) earth movement; e.g. know that the earth movement exclusion applies to landslides, mine subsidence and earth tremors caused by a volcanic eruption; and,
  - 3) water; e.g. know the water damage exclusion in the Causes of Loss Special Form applies to sewer backup, tidal waves, and flood.

- d. Property Indirect Damage Insurance
  - i. Be able to recognize definitions of Business Income and Extra Expense and that both are covered by the Business Income (and Extra Expense) coverage form.
  - ii. Be able to identify that coverage is only activated if there is direct physical loss to property at the described premises by a covered peril.
    - 1) There needs to be a complete suspension of operation for the Business income to be triggered.
  - iii. Be able to recognize situations in which a business would need Business Income and/or Extra Expense coverage.
  - iv. The Business Income declaration shows which causes of loss are covered.
  - v. Be able to identify situations in which a business would need coverage for Business Income from Dependent Properties.
  - vi. Understand the differences between extra expense needs and expediting (business interruption) coverage.
- e. Other Endorsements and Coverages
  - i. Be able to identify why the following forms or coverage options might be used:
    - a) Leasehold Interest;
    - b) Blanket, Specific, Schedule Insurance; agreed value;
    - c) Ordinance or Law Coverage;
    - d) Glass Coverage;
    - e) Extended Period of Indemnity; and,
    - f) Terrorism Exclusions
  - ii. Be able to identify the purpose of a "Builder's Risk" form
    - a) Know that the coinsurance requirement on a Builder's Risk form is 100 percent of the completed value.

### I. Commercial Insurance Coverages

#### B. Property Insurance

##### 2. Inland Marine

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# Prelicensing Education Educational Objectives

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## California Commercial Insurance Examination

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- a. Be able to identify:
  - i. why an insured might need Inland Marine (IM) coverage; and,
  - ii. common types of property insured using the Commercial Package Policy IM coverage part; e.g., transit, cargo, or equipment.
  - iii. know that a release bill of lading limits the carrier's liability on the shipment for the common carrier
- b. For filed forms used with the Commercial Lines Program, be able to identify:
  - i. the perils commonly insured "open perils"; and,
  - ii. the most common exclusions.
- c. Be able to understand the major reasons for considering an Electronic Data Processing policy.

### I. Commercial Insurance Coverages

#### B. Property Insurance

##### 3. Equipment Breakdown Protection Coverage (aka – Boiler and Machinery)

- a. Be able to identify why an insured might need Equipment Breakdown Protection (also known as Boiler and Machinery coverage) coverage even if they have commercial property insurance with Causes of Loss - Special Form.

### I. Commercial Insurance Coverages

#### B. Property Insurance

##### 4. Commercial Crime

- a. Be able to differentiate between "theft," "burglary" and "robbery" as defined in crime insurance contracts.
- b. Be able to identify the following crime coverages and recognize why a business would need to purchase them:
  - i. employee theft;
  - ii. theft of money and securities, inside the premises; and,
  - iii. theft of money and securities, outside the premises.
- c. Be able to differentiate between the discovery and loss sustained forms.
  - i. Know that the loss sustained type of crime coverage would pay for losses which occur during the policy period and are found for up to one year after the policy is terminated; and,
  - ii. Know that the discovery type of crime policy would pay for a loss which is found during the policy period even if the loss occurs prior to the effective date of the policy.
- d. Know that certain people are not covered under the policy including officers, employees, and independent contractors.

### I. Commercial Insurance Coverages

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# Prelicensing Education Educational Objectives

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## California Commercial Insurance Examination

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### C. Casualty Insurance

1. Commercial General Liability (CGL)
  - a. General Concepts
    - i. Be able to identify:
      - 1) the term General Liability; and,
      - 2) general types of loss exposures insured or left for other contracts to insure.
    - ii. Be able to identify the kinds of limits that are listed in the Declarations - and the Limits of Insurance section and how they apply.
  - b. CGL Coverage Forms – Occurrence and Claims Made
    - i. Be able to identify the difference in the coverage triggers between an occurrence policy and a claims-made policy.
    - ii. Be able to recognize why some policies are written on a claims-made basis.
    - iii. Be able to apply the definition of the following terms:
      - 1) Retroactive Date;
      - 2) Prior acts coverage (retro date not specified);
      - 3) Tail coverage (mini, midi, and maxi [SERP]); and,
      - 4) Know that the Basic Extended Reporting Period begins when the policy period ends and is activated when the policy is cancelled or non-renewed.
    - iv. CGL Coverage Form (Occurrence)
      - 1) Based on the Commercial General Liability Coverage Form be able to identify and apply:
        - a) the insuring agreement for coverage A, B, C; and;
        - b) the definitions of:
          - i. occurrence;
          - ii. products-completed operations;
          - iii. insured contract;
          - iv. coverage territory;
          - v. personal and advertising injury;
          - vi. bodily injury;
          - vii. property damage;
          - viii. automobile and mobile equipment;
          - ix. employee;
          - x. leased employee; and,
          - xi. temporary employee.
      - 2) Be able to identify both the effect of the following exclusions, and alternative forms of insurance coverage:
        - a) Liquor Liability;
        - b) Workers' Compensation;
        - c) Pollution;

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# Prelicensing Education Educational Objectives

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## California Commercial Insurance Examination

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- d) Automobile;
- e) Care, Custody and Control - Property Damage;
- f) Recall Exclusion; and,
- g) Expected and Intended.
- 3) Be able to understand who is an insured under the common endorsements.
- 4) Common Endorsements:
  - a) Employment Practices Liability;
  - b) Terrorism Exclusions; and,
  - c) Microbial Matter Exclusions
- c. Professional Liability
  - i. Be able to recognize reasons why professional liability losses are not covered under CGL policies
    - 1) because of applicable exclusions;
    - 2) because the loss is not:
      - a) a bodily injury;
      - b) property damage;
      - c) personal injury; and,
      - d) advertising injury.
  - ii. Be able to identify the professional occupations commonly insured by professional liability policies.
  - iii. Be able to identify what is covered by Professional Liability Policies that are not covered by a CGL policy.
  - iv. Be able to identify the triggers of coverage common to professional liability:
    - 1) Claims made;
    - 2) Claims made and reported; and,
    - 3) Occurrence (exceedingly rare)
  - v. Be able to understand the defense provision in a Professional Liability policy and how it differs from a CGL policy:
    - 1) Employers' exposure to loss;
    - 2) Common perils insured;
    - 3) Who is an insured;
    - 4) What losses are excluded;
    - 5) Employment practices liability; and,
    - 6) Fiduciary Liability.
- d. Management (Directors and Officers) Liability
  - i. Directors and Officers Liability:
    - 1) Be able to understand exposures to loss for profit and non-profit organizations;
    - 2) Be able to understand the three common insuring agreements;
    - 3) Be able to understand who is an insured; and,

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# Prelicensing Education Educational Objectives

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## California Commercial Insurance Examination

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- 4) Be able to understand the exclusions within a policy.
    - ii. Employment practices Liability:
      - 1) Be able to understand who are not covered; and,
      - 2) Be able to understand what losses are excluded.
  - e. Employment Practices
    - i. Be able to identify the definition of claims that include written demand for monetary or non-monetary relief or administrative or regulatory investigations (including Equal Employment Opportunity Commission charges).
    - ii. Be able to identify damages that include pre- and post-judgment interest, punitive, exemplary, liquidated and multiplied damages up to the limit of liability, where insurable; most favorable jurisdiction language applies.
    - iii. Be able to identify the broad definition of wrongful act(s) includes but is not limited to discrimination, harassment, wrongful demotion, failure to hire or promote, hostile or offensive work environment that interferes with work performance, termination and retaliation.
    - iv. Be able to identify that bodily injury exclusion includes carve-out for emotional distress mental anguish, defamation, invasion of privacy or humiliation.
    - v. Be able to understand that there is no exclusion for fraudulent or intentional acts.
- I. Commercial Insurance Coverages
  - C. Casualty Insurance
    - 2. Commercial Auto
      - a. Business Auto Coverage - Business Auto Policy (BAP)
        - i. Be able to identify why the following coverages might be needed by an insured:
          - 1) owned autos;
          - 2) hired autos; and,
          - 3) non-owned autos.
        - ii. Be able to identify each of the following symbols used to specify covered autos on the BAP declaration page: 1, 2, 3, 4, 7, 8, 9 and 19.
        - iii. Be able to understand the "who is insured" provision of the policy.
        - iv. Be able to identify the effect of the following exclusions and alternative methods of providing insurance coverage:
          - 1) Workers' Compensation;
          - 2) "Operations" and "Completed Operations";
          - 3) Pollution;
          - 4) Care, Custody and Control - Property Damage; and,
          - 5) Fellow employee.
        - v. Be able to identify the principal physical damage coverages.

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# Prelicensing Education Educational Objectives

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## California Commercial Insurance Examination

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- vi. Be able to identify the effect of the following endorsements:
    - 1) Individual Named Insured endorsement; and,
    - 2) Drive Other Car Coverage-Broadened Coverage for Named Individuals.
  - b. Garage Auto Coverage
    - i. Garage Liability covers Garage Operations; be able to identify:
      - 1) the definition of Garage Operations;
      - 2) the four major coverages provided by Garage Liability; and,
      - 3) reasons for insuring with Garage Liability rather than using General Liability plus Commercial Auto coverage.
    - ii. Be able to distinguish between losses covered by Garagekeepers Legal Liability and Garagekeepers Direct Coverage (primary or excess).
  - c. Truckers Coverage
    - i. Be able to identify:
      - 1) the definition of "trucker" and the general scope of the Motor Carrier Act of 1980;
      - 2) why a separate automobile program was developed for motor carriers; and,
      - 3) that except for a few important specialized coverages, and a few other changes, this coverage corresponds to the BAP.
- I. Commercial Insurance Coverages
- C. Casualty Insurance
    - 3. Farm
      - a. Be able to identify that Farm Insurance can be written on a monoline or package policy providing:
        - i. both personal and commercial coverages; and,
        - ii. liability and property coverages.
      - b. The Federal Government Crop Insurance Program for Crop Insurance, be able to identify:
        - i. why the coverage may be needed;
        - ii. the major perils commonly insured; and,
        - iii. the role of the federal government.
- I. Commercial Insurance Coverages
- C. Casualty Insurance
    - 4. National Flood
      - a. Be able to identify the definition of a flood.
      - b. Be able to identify the principal commercial flood coverages.
      - c. Be able to recognize that Business Income and Extra Expense are not available through National Flood Insurance Program (NFIP).

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# Prelicensing Education Educational Objectives

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## California Commercial Insurance Examination

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- d. Be able to identify that producers have no binding authority with the NFIP.
- e. Know that in order to place flood insurance through the NFIP the three-hour training must be completed before submitting the policy as stated in Section 207 of Flood Insurance Reform Act of 2004.

I. Commercial Insurance Coverages

C. Casualty Insurance

5. Ocean Marine

- a. Be able to differentiate between cargo, hull, freight, and protection and indemnity coverages.
- b. Be able to recognize the sources of claims for which Protection and Indemnity
  - i. Jones Act
  - ii. USL&H Act

I. Commercial Insurance Coverages

C. Casualty Insurance

6. Surety Bonds and General Bond Concepts

- a. Be able to differentiate between the three parties involved in a surety bond.
- b. Be able to identify differences between surety bonds and insurance policies with regard to loss payments.
- c. Be able to identify the differences between contract, financial guarantee and faithful performance bonds.

I. Commercial Insurance Coverages

C. Casualty Insurance

7. Umbrella and Excess Liability

- a. Be able to identify:
  - i. the major functions of these policies;
  - ii. the absence of standard policies; however, there is an ISO form but most carriers have developed their own form with unique coverage;
  - iii. the difference between umbrella and excess policies;
  - iv. underlying policies that are commonly required by the umbrella insurer to be maintained; and,
  - v. what a self-insured retention is and how it is applied to a loss.

I. Commercial Insurance Coverages

C. Casualty Insurance

8. Workers' Compensation

- a. Be able to identify the effect on the legal relationship between employer, employee and independent contractor that was intended when workers' compensation laws were written.

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# Prelicensing Education Educational Objectives

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## California Commercial Insurance Examination

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- b. Be able to identify situations where workers' compensation coverage is required by law and the methods used to provide the coverage.
- c. Be able to describe the California State Compensation Insurance Fund (SCIF) and Section 11770 et. seq. of the CIC:
  - i. Who may place business with it; and,
  - ii. Why you would place business with SCIF.
- d. Be able to identify the different types of benefits provided:
  - i. Medical;
  - ii. Disability;
  - iii. Death; and,
  - iv. Supplemental job benefits.
- e. Be able to identify that covered medical expenses do not have time or dollar limits.
  - i. Identify the limits for physical therapy; and,
  - ii. Identify the limits for chiropractic services.
- f. Be able to identify what Employers Liability coverage is and why it is necessary in addition to workers' compensation, Section 11750.1(f) of the CIC.
- g. Be able to identify and apply a definition of the Other States Insurance section of the policy, Section 11780.5 of the CIC.
- h. Be able to identify the voluntary contribution endorsement.
- i. Be able to identify what is meant by the term "24 Hour coverage," Section 1749.02 of the CIC.
- j. Be able to identify the California rating system and the purpose of the experience modification system.
- k. Be able to identify that the Workers' Compensation policy does not cover any federal workers' compensation or employers liability laws:
  - i. Jones Act;
  - ii. USL & H; and

### I. Commercial Insurance Coverages

#### D. Businessowners Policy (Bop)

##### 1. General Concepts

- a. Be able to identify the:
  - i. purpose of this program;
  - ii. mandatory coverages; and,
  - iii. categories of eligible businesses.

##### 2. BOP Property Coverages

- a. Be able to differentiate between the coverage provided by the Standard and Special forms.
- b. Be able to differentiate between the perils covered in the BOP policies and the commercial property policy.

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# Prelicensing Education Educational Objectives

## California Commercial Insurance Examination

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- c. Be able to identify important additional coverages included in the BOP that would have to be added to the Commercial Property Policy.
- 3. BOP Liability Coverages
  - a. Be able to identify that the coverage and exclusions are similar to that provided by coverages A, B, C of the CGL form.
  - b. Be able to identify how the limits of liability of the BOP policy differ from the CGL policy.