CPCU® 500
Study Guide and Practice Exam

Presented by: AssociatePI
CPCU® 500 Study Guide

Your study guide contains:

• Breakdown of each CPCU® 500 chapter
• List of the most important topics for each chapter
• Study tips for each chapter

See your practice exam on page 12
Chapter 1: Introduction to risk management

The main topic of this chapter is risk

Chapter 1: Studying Focus

Elements of risk
Pure vs. Speculative risk
Risk management goals

The purpose of this chapter is to help you understand risk. Pure risk will be a reoccurring topic throughout the exam.
Chapter 2: Risk assessment

The main topic of this chapter is **probability and dispersion**

**Chapter 2: Studying Focus**

- Theoretical vs. empirical probability
- Discrete vs. continuous probability
- Standard deviation (Very important!)
- How to use the normal distribution curve

**Note**: You will not need to calculate standard deviation. Understand its purpose and use with the normal curve.
Chapter 3: Risk control

One of the two **MOST IMPORTANT CHAPTERS**

---

**Note:** Effective vs. efficient risk control is important!

---

**Chapter 3: Studying Focus**

**Risk control techniques:**
Avoidance, loss prevention, loss reduction, separation, duplication and diversification

**Risk control goals:**
Effective and efficient measures, comply with legal requirements, promote life safety, business continuity

---

**Note:** Memorize ALL risk control goals! The exam will require you to differentiate between risk control and risk financing goals.
Chapter 4: Risk financing

Second MOST IMPORTANT CHAPTER

Chapter 4: Studying Focus

Risk financing goals: Pay for losses, manage cost of risk, manage cash flow variability, liquidity, legal compliance

Advantages of retention: Cost saving, control claims process, cash flow timing and incentivize risk control

Advantages of transfer: reduce large loss exposure, reduce cash flow variability, ancillary services and public relations

Types of risk financing

Note: Memorize ALL risk financing, retention and transfer goals! The exam will have a lot of trick questions in regards to these goals

Note: This is the most important chapter. There will be a LOT of questions about risk transfer vs. risk retention techniques
Chapter 5: Insurance as a risk management technique

Commercial and personal loss exposures are **NOT** as important as you may think

Chapter 5: Studying Focus

Benefit of insurance

Six characteristics of insurable loss exposures:

- Pure risk
- Fortuitous losses
- Definite and measurable
- Large number of similar exposures
- Independent/non-catastrophic
- Affordable

IIP: I spent a lot of time memorizing each exposure characteristic. DO NOT DO THIS.

Focus on the broad overview of insurability characteristics.
Chapter 6: Insurance policy analysis

The main topic of this section will be understanding insurance policy variations

Chapter 6: Studying Focus

Characteristics of insurance policies
- Self contained vs. modular
- Preprinted vs. manuscript
- Standard vs. nonstandard
- DICE method

Note: The DICE method is important! Understand how each step helps to analyze an insurance policy.
Chapter 7: Common policy concepts

Insurance to value is very important!

Chapter 7: Studying Focus

Insurance to value (very important!)

Deductibles

Other sources of recovery

TIP: Insurance to value will most likely be included as one of the case questions
Chapter 8: Big Data Analytics

This chapter is new to the 2nd edition CPCU® 500 study material

Chapter 8: Studying Focus

Big data sources
Big data types
Data science
Data mining

TIP: You'll likely have less than 5 questions from this chapter on your exam.
Free CPCU® 500 Chapter One Access

Here’s exclusive access to chapter one of the CPCU® 500 exam

Click Here
To Access Chapter One

Simply click the link above and register for complete access to our chapter one online course

Chapter one course includes:

Chapter one fill in the blank study guide

Chapter one course (9 modules)

Recap and quiz questions for each chapter one section

A mini chapter one practice exam
1. All of the following are elements of loss exposure except?

A. Asset exposed to loss
B. Cause of loss
C. Hazards of loss
D. Financial consequence of loss
2. Standard deviation is a representation of what?

A. Measure of how widely dispersed values in a distribution are
B. Measure of dispersion between the expected value and probability
C. Measure of how widely dispersed values are from the mode of a distribution
D. Measure used to compare distributions with different means
3. Which of the following is true in regards to a properly constructed probability distribution?

A. Outcomes must be independent of one another
B. Each possible outcome must correspond with a probability and standard deviation
C. Must contain outcomes which are mutually exclusive and collectively exhaustive
D. Probability distributions are only used to analyze events which have a finite number of outcomes
4. Which of the following describes an efficient risk control measure?

A. By choosing to install a new automated manufacturing system, ABC firm has effectively reduced the number of workers compensation claims from 5 per year to 1 per year.

B. XYZ corporation has decided to enter into a pooling insurance agreement with a neighboring organization.

C. Shannon purchases property insurance to help pay for potential property and liability losses.

D. David chooses to install deadbolt locks in his home because it is less expensive than a security system.
5. All of the following are advantages of risk transfer, except?

A. Reduces cash flow variability
B. Pays for large losses
C. Reduces negative public relations
D. Cost savings
6. Jason, an analyst at ABC Insurance Company, is analyzing claim history to predict which homes are most likely to incur a wind related claim. Jason will use this to build a model that automatically rejects any quoted policy that meets the criteria of “likely to have a claim”. Jason is analyzing known claim indicators including age of home, age of roof and distance to coast. Which data mining technique would Jason likely use?

A. Classification
B. Regression analysis
C. Association rule learning
D. Cluster analysis
7. Which is true about fire loss exposures?

A. Arson is a fortuitous loss
B. Fire losses are often catastrophic
C. Insurance for fire is typically affordable
D. Fire losses are difficult to measure
8. Where would an insured find information about when and where liability coverage applies under his personal auto policy?

A. Definitions section
B. Declarations page
C. Insuring agreement
D. Policy conditions page
9. Shannon has recently purchased a new home. She immediately called her insurer and purchased an HO-3 policy but decided not to cancel her renters insurance policy on her apartment because she plans to continue living in her apartment for the next 3 weeks until she has fully moved into her new home. Since Shannon now holds two insurance policies, she may be covered twice for the same loss exposure. What type of “other insurance” is this?

A. Other insurance in similar policy
B. Other insurance in the same policy
C. Other insurance in a dissimilar policy
D. This is not a form of other insurance since it is purchased from the same insurer
10. David’s HO-3 policy contains a provision stating that he must insure his property to at least 80% of his property value in order to receive full insurance coverage in the event of a loss. David entered into his insurance agreement which insured his dwelling for $230,000. At this time, the insurer determined David’s property value to be $300,000. Five years later, David suffers a tragic fire loss which completely destroys his home. At the time of loss, it is determined that David’s property value is $280,000. How much will David’s insurer pay for this loss?

A. $280,000  
B. $220,416  
C. $300,000  
D. $230,000
1. C) Hazards of loss
   – Hazard is a quadrant or risk, not an element of loss exposure

2. A) Measure of how widely dispersed values in a distribution are
   – Standard deviation measures variability between the mean and actual values in a distribution. This shows how widely dispersed a distribution is

3. C) Must contain outcomes which are mutually exclusive and collectively exhaustive
   – Two requirements of probability distribution: Outcomes are mutually exclusive/collectively exhaustive and each possible outcome must be assigned a probability

4. D) David chooses to install deadbolt locks in his home because it is less expensive than a security system
   – An efficient risk control measure: the risk control technique which is least expensive
5. D) Cost savings
   – Cost savings is an advantage of retention

6. A) Classification
   – Classification is the process of assigning members of a dataset into categories based on known characteristics. This technique is used when the insurer knows what information it wants to predict. In this case, Jason is known to want to predict which policies are likely to incur a wind claim and he is categorizing the claims data set into “likely to have a claim” and “unlikely to have a claim” based on the characteristics of age of home, age of roof and distance to coast. This is the process of classification.

7. C) Insurance for fire is typically affordable
   – Fire meets all six of the ideally insurable loss exposure characteristics, meaning insurers are able to accurately assign a premium making it economically affordable for customers.
8. B) Declarations page
   - Declarations page includes information such as policy period, name of insurer, name of insureds, description of covered property, policy limits and deductibles

9. A) Other insurance in similar policy
   - Other insurance in a similar policy occurs when an insured is covered for the same loss exposure by two different policies. For example, Shannon’s personal property may be covered under both her renters policy and her new HO-3 policy

10. D) $230,000
    - David’s home is insured to at least 80% of property value at the time of loss, meaning his insurer will pay the total amount of the loss up to the policy limits. ($230,000 ÷ $280,000 = 82%)
Studying for the CPCU® 500?

Here’s how you can pass your exam guaranteed

**ENROLL HERE**

CPCU® 500 Guarantee

Pass your CPCU® 500 exam using our comprehensive online course or your full money back

On average, AssociatePI members pass their CPCU® 500 exam with our course in just two weeks
For more practice exam and quiz questions

Register for our CPCU® 500 practice exam and quiz question course

ENROLL HERE

Including:

300+ quiz questions
Two complete practice exams (60 questions each)
All unique quiz questions

300+ quiz questions
Two complete practice exams (60 questions each)
All unique quiz questions
For more CPCU® 500 information, see our blogs!

What is the CPCU® 500 Exam

CPCU® 500 Difficulty

CPCU® 500 Exam Format

CPCU® 500 Exam Questions
Good luck on the CPCU® 500!

If you have any questions about the CPCU® 500 exam, contact us

Email: Contact@AssociatePI.com