

# Mississippi Insurance Practice Test (Sample)

## Study Guide



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**SAMPLE**

## **Questions**

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- 1. Which of the following is NOT covered by the garage coverage form?**
  - A. Underinsured motorists**
  - B. Damage to customer vehicles**
  - C. Liability for customer injuries**
  - D. Property damage to covered premises**
- 2. What does the term "moral hazard" refer to in insurance?**
  - A. Physical risks associated with property damage**
  - B. A condition where insured individuals take higher risks because they are insured**
  - C. Legal issues surrounding insurance claims**
  - D. Financial instability affecting premium rates**
- 3. Which type of insurance is designed to cover medical expenses due to workplace injuries?**
  - A. Health insurance**
  - B. Disability insurance**
  - C. Workers' compensation insurance**
  - D. Liability insurance**
- 4. Which of the following losses would not be covered under section II of the homeowner's policy?**
  - A. Named insured's son damages the family garage with his car**
  - B. Loss due to theft of personal property**
  - C. Damage from fire to the garage**
  - D. Damage to a neighbor's fence during a storm**
- 5. What term best describes a building that contains nothing?**
  - A. Unoccupied**
  - B. Vacant**
  - C. Abandoned**
  - D. Idle**

- 6. If an insured owns a \$200,000 home but only insures it for \$100,000, how much will the insurer pay if the home is destroyed?**
- A. \$80,000**
  - B. \$100,000**
  - C. \$200,000**
  - D. \$150,000**
- 7. Which individual would not necessarily be characterized by a restricted capacity to contract?**
- A. A business owner**
  - B. A retired person**
  - C. A minor**
  - D. A student**
- 8. When defining 'flood', which of the following events would typically NOT be included?**
- A. Heavy rainfall**
  - B. Flash floods**
  - C. Sewer backup**
  - D. River overflow**
- 9. For a policy being canceled due to nonpayment of premium, how many days advance notice must the insurer provide?**
- A. 5 days**
  - B. 10 days**
  - C. 15 days**
  - D. 30 days**
- 10. Which of the following is NOT covered by workers' compensation laws?**
- A. Medical bills**
  - B. Lost wages**
  - C. Pain and suffering**
  - D. Rehabilitation costs**

## **Answers**

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- 1. A**
- 2. B**
- 3. C**
- 4. A**
- 5. B**
- 6. B**
- 7. B**
- 8. C**
- 9. B**
- 10. C**

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## **Explanations**

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**1. Which of the following is NOT covered by the garage coverage form?**

- A. Underinsured motorists**
- B. Damage to customer vehicles**
- C. Liability for customer injuries**
- D. Property damage to covered premises**

The garage coverage form is an insurance policy specifically designed for businesses in the automotive industry, such as garages, auto repair shops, and dealerships. This form typically provides coverage for a range of liabilities and property damages associated with the operation of these businesses. Underinsured motorists coverage is a type of auto insurance that protects drivers when they are involved in an accident with another driver who has insufficient insurance to cover the damages. This coverage is intended for personal auto policies rather than garage coverage policies. Therefore, underinsured motorists are not a risk covered by the garage coverage form because the focus of this insurance is primarily on business-related activities, including liability for customer injuries and damage to customer vehicles while in the business's care. The other options, including damage to customer vehicles, liability for customer injuries, and property damage to covered premises, are all explicitly addressed within the scope of the garage coverage form, making them part of the protections offered under this type of insurance policy.

**2. What does the term "moral hazard" refer to in insurance?**

- A. Physical risks associated with property damage**
- B. A condition where insured individuals take higher risks because they are insured**
- C. Legal issues surrounding insurance claims**
- D. Financial instability affecting premium rates**

The term "moral hazard" in insurance refers to a situation where individuals or entities that are insured may engage in riskier behavior because they know they have coverage. This concept arises from the perception that when people are protected from the consequences of their actions, they may be less motivated to exercise caution. For instance, if a homeowner knows their property is insured, they might be less careful about maintaining the property or might even take risks that could lead to loss or damage, knowing that the insurance will cover the financial repercussions. This behavior is particularly concerning for insurers, as it can lead to increased losses, thereby impacting the overall cost of insurance. Understanding moral hazard is crucial for insurance providers, as it shapes underwriting practices and policy design to mitigate these risks.

**3. Which type of insurance is designed to cover medical expenses due to workplace injuries?**

- A. Health insurance**
- B. Disability insurance**
- C. Workers' compensation insurance**
- D. Liability insurance**

Workers' compensation insurance is specifically designed to provide coverage for medical expenses and other costs associated with injuries or illnesses that occur as a direct result of a person's employment. This type of insurance ensures that employees receive the necessary medical treatment and partial wage replacement during their recovery period, thus protecting both the employee and employer from the financial burden of workplace accidents. Unlike health insurance, which may cover a wide range of medical expenses unrelated to work, workers' compensation focuses solely on work-related injuries and illnesses. Disability insurance, on the other hand, provides income replacement when an individual cannot work due to a disability, but it does not necessarily cover medical expenses directly tied to workplace incidents. Liability insurance protects businesses from claims resulting from injuries or damages they may cause to others, but it does not provide coverage for employees injured on the job. Overall, workers' compensation insurance is the most appropriate and designated coverage for medical costs arising from workplace injuries, making it the correct answer for this question.

**4. Which of the following losses would not be covered under section II of the homeowner's policy?**

- A. Named insured's son damages the family garage with his car**
- B. Loss due to theft of personal property**
- C. Damage from fire to the garage**
- D. Damage to a neighbor's fence during a storm**

Under section II of a homeowner's policy, personal liability coverage applies to damages that the insured is legally liable for due to bodily injury or property damage to others. The scenario where the named insured's son damages the family garage with his car involves damage to property owned by the named insured. Homeowner's policies typically do not cover damages to the insured's own property under the liability section, hence this loss would not be covered. In contrast, the other scenarios describe events that align more closely with the coverage provided. Loss due to theft of personal property is typically covered under the policy, as is damage from fire, which usually falls under the dwelling coverage. Damage to a neighbor's fence during a storm can also be covered, as it pertains to liability for damages to others' property. Thus, the correct choice reflects an event that is excluded from coverage within the context of section II of the homeowner's policy.

**5. What term best describes a building that contains nothing?**

**A. Unoccupied**

**B. Vacant**

**C. Abandoned**

**D. Idle**

The term "vacant" precisely describes a building that contains nothing. In property terminology, "vacant" refers to a space that is not currently being occupied or utilized, and it specifically indicates an absence of people and possessions within the structure. This term is commonly used in real estate to describe properties that are not currently being leased or lived in. In contrast, "unoccupied" suggests that while the building may not have people inside at the moment, it could still be furnished or have other uses associated with it. "Abandoned" implies that the building has been left behind, often in a state of neglect, which brings connotations about the property's condition and the intent of leaving it. "Idle" typically refers to something that is not in use, but it does not specifically address the status of contents within a building. Thus, "vacant" is the most accurate term for describing a building that is completely empty of occupants and belongings.

**6. If an insured owns a \$200,000 home but only insures it for \$100,000, how much will the insurer pay if the home is destroyed?**

**A. \$80,000**

**B. \$100,000**

**C. \$200,000**

**D. \$150,000**

The correct answer is that the insurer will pay \$100,000 if the home is destroyed. This scenario illustrates the concept of "insurance to value." In many property insurance policies, the insured is generally encouraged to insure the property for its full replacement value to avoid a penalty in the event of a total loss. Since the home is worth \$200,000 but insured for only \$100,000, the policyholder is under-insured. In the case of a total loss, the insurer typically pays the lesser of the amount insured or the actual cash value, depending on the terms of the policy. Here, because the home is insured up to \$100,000, that amount is what the insurer will pay, reflecting the policy limit. This consequence serves to reinforce the importance of properly valuing and insuring property to ensure adequate coverage. If the home had been insured for its full value, a higher payout could have been expected in a total loss situation.

**7. Which individual would not necessarily be characterized by a restricted capacity to contract?**

- A. A business owner**
- B. A retired person**
- C. A minor**
- D. A student**

A retired person would not necessarily be characterized by a restricted capacity to contract because age alone does not dictate an individual's ability to enter into contracts. In most jurisdictions, including Mississippi, individuals who are of legal age, typically 18 years or older, possess the full capacity to contract unless there are other underlying factors affecting their ability, such as mental incapacity or being under the influence of substances. In contrast, a business owner has the capacity to contract but may have obligations and constraints based on the legal structure of their business. A minor typically has a restricted capacity because contracts with minors are often voidable at the minor's discretion to protect their interests. Likewise, a student can also be a minor or have other restrictions placed upon them depending on their age and circumstances. Therefore, a retired person stands out as someone who can engage freely in contracts, assuming they are otherwise competent and not restricted due to other legal issues.

**8. When defining 'flood', which of the following events would typically NOT be included?**

- A. Heavy rainfall**
- B. Flash floods**
- C. Sewer backup**
- D. River overflow**

In the context of defining 'flood,' sewer backup is typically not included as a qualifying event for flood insurance coverage. Flooding generally refers to the overflowing of water from natural sources, such as heavy rainfall, flash floods, and river overflow. These events involve water rising from bodies of water like rivers or lakes or accumulating due to extreme weather conditions. In contrast, sewer backup refers to wastewater rising from the sewer system and is often categorized separately due to its unique causes and risks. Thus, it does not align with standard definitions of flooding covered under typical flood insurance policies. Understanding this distinction is crucial for anyone studying flood insurance terms and conditions.

**9. For a policy being canceled due to nonpayment of premium, how many days advance notice must the insurer provide?**

- A. 5 days
- B. 10 days**
- C. 15 days
- D. 30 days

In Mississippi, when a policy is being canceled due to nonpayment of premium, the insurer is required to provide a 10-day advance notice to the insured. This regulation is in place to ensure that policyholders are given a reasonable opportunity to remedy the situation before their coverage is terminated. This notice period is designed to protect consumers by allowing them time to make the necessary payment to keep their insurance coverage active. Understanding the timeframe for notification is important because it highlights the insurer's obligation to communicate effectively with the policyholder regarding the status of their coverage, ultimately fostering transparency and trust in the insurance relationship.

**10. Which of the following is NOT covered by workers' compensation laws?**

- A. Medical bills
- B. Lost wages
- C. Pain and suffering**
- D. Rehabilitation costs

Workers' compensation laws are designed to provide financial support and medical care for employees who sustain work-related injuries or illnesses. The primary purpose of these laws is to ensure that affected employees receive the necessary support without needing to prove fault on the part of the employer. Medical bills, lost wages, and rehabilitation costs are all integral components of workers' compensation benefits, as they address the immediate and ongoing needs of injured workers. Medical bills cover the costs of necessary treatments and healthcare services, while lost wages compensate for the time an employee cannot work due to their injury. Rehabilitation costs help workers recover and return to their jobs effectively. Pain and suffering, however, is not covered under workers' compensation laws. This aspect typically relates to personal injury claims outside of the workers' compensation system, where an individual may seek damages for physical and emotional distress caused by another party's negligence. In contrast, the workers' compensation framework focuses on providing specific benefits without additional compensation for pain and suffering, maintaining a no-fault approach to workplace injuries.