

Nevada Property and Casualty (P&C) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. If an insurer intends to nonrenew a businessowners policy, how many days before expiration must they inform the mortgageholder?**
 - A. 15 days**
 - B. 30 days**
 - C. 10 days**
 - D. 60 days**
- 2. Individuals in the business of selling construction equipment and mobile equipment should be insured with which form?**
 - A. Commercial General Liability form**
 - B. Business Owners Policy form**
 - C. Equipment dealers coverage form**
 - D. Commercial Property coverage form**
- 3. What does the mobile home endorsement cover?**
 - A. Only the mobile home**
 - B. Mobile home and other structures on land owned or leased by the resident**
 - C. Only the land the mobile home is situated on**
 - D. Only personal property within the mobile home**
- 4. Under a liability policy with split limits of 50/100/30, what is the maximum payout for injury to a single person?**
 - A. \$30,000**
 - B. \$50,000**
 - C. \$100,000**
 - D. \$150,000**
- 5. What is the function of liability insurance in relation to claims made against an insured?**
 - A. To indemnify the insured against loss**
 - B. To calculate the premium**
 - C. To build equity for the insured**
 - D. To guarantee market value**

- 6. Which type of risk does not involve the possibility of profit, only the chance of loss?**
- A. Calculated risk**
 - B. Speculative risk**
 - C. Pure risk**
 - D. Inherent risk**
- 7. What type of limit does a liability policy have that sets the total must pay for a single incident at \$50,000?**
- A. Per occurrence limit.**
 - B. Combined single limit.**
 - C. Aggregate limit.**
 - D. Sub-limit.**
- 8. Which type of limit allows for coverage up to a specific limit per claim?**
- A. Aggregate limit.**
 - B. Per occurrence limit.**
 - C. Combined single limit.**
 - D. Per accident limit.**
- 9. If an insured purchased a \$200,000 extra expense policy with limits of 40%, 80%, and 100%, what is the maximum payable for a 47-day loss?**
- A. \$80,000**
 - B. \$160,000**
 - C. \$100,000**
 - D. \$200,000**
- 10. Who qualifies as an insured under a business auto coverage form?**
- A. The business owner only**
 - B. Anyone while using, with permission, a covered auto owned by the named insured**
 - C. Employees of the business only**
 - D. Authorized drivers listed on the policy**

Answers

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

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Explanations

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1. If an insurer intends to nonrenew a businessowners policy, how many days before expiration must they inform the mortgageholder?

A. 15 days

B. 30 days

C. 10 days

D. 60 days

In the context of a nonrenewal of a businessowners policy, the insurer is required to provide a notification to the mortgage holder a specific number of days before the policy expiration. The correct answer indicates that the insurer must inform the mortgage holder at least 10 days prior to the expiration of the policy. This requirement serves to protect the interests of the mortgage holder, ensuring they are aware of any potential lapses in coverage that could affect the property securing the loan. The short notification period reflects the understanding that businessowners policies often involve commercial properties with various risks that need to be managed closely. The other answer choices suggest longer notice periods, which are not aligned with the specific regulations governing such policies. Regulatory guidelines prioritize timely communication, and the established 10-day notice helps ensure all parties, including the mortgage holder, are equipped to respond appropriately if a policy is not being renewed. Understanding these time frames is crucial for compliance and risk management in property and casualty insurance.

2. Individuals in the business of selling construction equipment and mobile equipment should be insured with which form?

A. Commercial General Liability form

B. Business Owners Policy form

C. Equipment dealers coverage form

D. Commercial Property coverage form

The Equipment Dealers Coverage Form is specifically designed to address the unique risks faced by businesses that sell construction and mobile equipment. This form provides specialized coverage that includes protection for physical damage to the equipment itself as well as liability coverage for accidents that may occur during the sale or operation of that equipment. In this context, the Equipment Dealers Coverage Form is essential because it not only covers the inventory of equipment but also includes coverage for products liability, which is critical for businesses that may be held liable for injuries or damages caused by equipment they sell. This tailored approach ensures that all aspects of the business operations related to equipment sales and service are comprehensively protected. On the other hand, Commercial General Liability forms provide broader liability coverage but do not specifically cater to the nuances of equipment sales and service. Business Owners Policies, while useful for small businesses, might lack the specialized coverage that is crucial for equipment dealers. Finally, Commercial Property Coverage generally focuses on insuring physical assets against loss or damage but does not necessarily encompass the specific liability and operational risks associated with selling construction and mobile equipment. Thus, the Equipment Dealers Coverage Form is the most appropriate choice for individuals in this business sector.

3. What does the mobile home endorsement cover?

- A. Only the mobile home
- B. Mobile home and other structures on land owned or leased by the resident**
- C. Only the land the mobile home is situated on
- D. Only personal property within the mobile home

The mobile home endorsement is designed to provide coverage for both the mobile home itself and other structures on land that is owned or leased by the resident. This means that the endorsement extends the property coverage to include not just the mobile home but also sheds, garages, or any other outbuildings that may be situated on the same property. This comprehensive approach ensures that policyholders have protection for various types of structures associated with their mobile home, which is important for homeowners who might have invested in additional buildings to enhance their living space or for storage. The other options do not encompass the full extent of coverage that the endorsement provides. Focusing solely on the mobile home would leave other structures unprotected, while limiting coverage just to the land ignores the value of the mobile home itself and any improvements made on the property. Similarly, restricting coverage only to personal property inside the mobile home does not address the potential risks or damages to the physical structure of the mobile home or additional structures on the premises. Thus, the mobile home endorsement is vital in ensuring a more complete type of coverage to protect the homeowner's overall investment.

4. Under a liability policy with split limits of 50/100/30, what is the maximum payout for injury to a single person?

- A. \$30,000
- B. \$50,000**
- C. \$100,000
- D. \$150,000

In a liability policy with split limits, the figures represent the maximum amounts that the insurance will pay in different scenarios. The first figure refers to the maximum payout for bodily injury per person, the second figure is the total maximum payout for bodily injury per accident (which applies to all injured persons), and the third figure pertains to property damage coverage. In this case, with split limits of 50/100/30: - The first figure, \$50,000, indicates the maximum payout for injury to a single individual. - The second figure, \$100,000, is the maximum that the insurer will pay for bodily injury per accident, covering multiple people if there are severe injuries. - The third figure, \$30,000, indicates the limit for property damage caused by the insured. Thus, the appropriate maximum payout for injury to a single person is \$50,000, making this option the correct one. The other options do not represent the limits defined in this particular policy configuration.

5. What is the function of liability insurance in relation to claims made against an insured?

- A. To indemnify the insured against loss**
- B. To calculate the premium**
- C. To build equity for the insured**
- D. To guarantee market value**

Liability insurance serves the primary function of indemnifying the insured against losses associated with claims made by third parties. This means that if an insured individual or business is held legally responsible for causing injury or damage to someone else, liability insurance provides financial coverage to pay for legal defense costs, settlements, or judgments that arise from these claims. Indemnification ensures that the insured is protected financially, allowing them to recover from personal or business liability situations without incurring substantial out-of-pocket expenses. This protection is crucial for avoiding destruction of personal wealth or business assets, which can occur due to costly legal settlements. The other options do not accurately represent the primary purpose of liability insurance. Evaluating premiums is more about pricing the insurance policy rather than addressing claims. Building equity pertains to asset management and value growth, which is unrelated to the nature of liability insurance. Finally, guaranteeing market value is not a function of liability insurance since it does not ensure any specific asset maintains its market value. Overall, the central role of liability insurance is to protect the insured against potential financial loss from third-party claims.

6. Which type of risk does not involve the possibility of profit, only the chance of loss?

- A. Calculated risk**
- B. Speculative risk**
- C. Pure risk**
- D. Inherent risk**

Pure risk is characterized by situations where there is no opportunity for a profit, only the potential for a loss. This type of risk refers to scenarios that can only result in loss or no loss, such as property damage, illness, or death. Insurance is typically designed to cover pure risks, allowing individuals and businesses to manage potential losses effectively. For instance, if a homeowner's property is damaged by fire, the financial loss is a pure risk. The homeowner faces the possibility of losing value but does not stand to gain any profit from the situation. As a result, insurance policies are often structured around mitigating these types of risks. In contrast, calculated risks and speculative risks involve the potential for profit or loss. Calculated risk might involve weighing the probability of different outcomes to make informed decisions, while speculative risk includes decisions where both gains and losses are possible, such as investing in stocks. Inherent risk refers to the risk that exists naturally within a process or activity without any efforts to manage it, but it does not specifically denote a lack of profit potential. Therefore, pure risk distinctly categorizes the absence of profit opportunities, which aligns with the focus of the question.

7. What type of limit does a liability policy have that sets the total must pay for a single incident at \$50,000?

- A. Per occurrence limit.**
- B. Combined single limit.**
- C. Aggregate limit.**
- D. Sub-limit.**

The correct choice is indeed the per occurrence limit. This type of limit specifies the maximum amount that an insurance policy will pay for a given incident or event. In this scenario, a liability policy with a per occurrence limit of \$50,000 means that for any single claim or incident, the insurer will cover up to \$50,000 in damages or costs resulting from that event. For example, if a policyholder is involved in an accident that leads to a liability claim, the insurance would cover costs resulting from that one incident, but only up to the specified limit of \$50,000. This is critical in liability policies as it determines the financial exposure of both the insurer and the insured in the event of a claim. In contrast, a combined single limit refers to a single dollar amount available to cover both bodily injury and property damage in any one incident, while an aggregate limit refers to the maximum amount a policy will pay for all claims during a specified period, often a year. A sub-limit applies to certain specific types of coverage within the overall policy, capping how much can be claimed on that specific aspect. These different types of limits serve distinct roles and are essential to understanding how insurance policies function.

8. Which type of limit allows for coverage up to a specific limit per claim?

- A. Aggregate limit.**
- B. Per occurrence limit.**
- C. Combined single limit.**
- D. Per accident limit.**

The correct answer focuses on the concept of a "per occurrence limit." This type of limit specifies that for each individual claim or incident, there is a maximum amount that the insurance policy will cover. This means if a policyholder faces multiple claims arising from separate occurrences, each can be evaluated independently up to the specified limit. For instance, if a property insurance policy has a per occurrence limit of \$100,000, any single claim resulting from a specific incident can be paid up to that amount, regardless of the total number of claims filed during the policy period. This is essential because it provides clarity and predictability for policyholders, knowing they have a specific amount available for each distinct event or claim. It is particularly relevant in situations where several separate incidents may occur, as opposed to aggregate limits that encompass all claims within a certain timeframe, typically making it more beneficial for high-frequency, low-severity risks.

9. If an insured purchased a \$200,000 extra expense policy with limits of 40%, 80%, and 100%, what is the maximum payable for a 47-day loss?

- A. \$80,000
- B. \$160,000**
- C. \$100,000
- D. \$200,000

To determine the maximum payable for a 47-day loss under a \$200,000 extra expense policy with a limit of 80%, it's essential to understand how the policy limits work in relation to the duration of the loss and the percentage limit. In this case, the policy has a total limit of \$200,000, meaning that the insured can claim up to that amount for extra expenses incurred as a result of a loss. The extra expense coverage is often limited to a certain percentage of the total policy limit for different scenarios or durations; here, there are limits of 40%, 80%, and 100%, but for a 47-day loss, the appropriate limit would be the highest percentage—80%. To calculate the maximum amount payable for the loss, you would apply the 80% limit to the total policy amount. 1. Calculate 80% of \$200,000: $0.80 \times \$200,000 = \$160,000$ This means that for the duration of the loss, the maximum payable under the 80% limit is \$160,000. Therefore, if the extra expenses incurred during the 47-day loss are equal to or below this threshold, the insured will receive the full amount

10. Who qualifies as an insured under a business auto coverage form?

- A. The business owner only
- B. Anyone while using, with permission, a covered auto owned by the named insured**
- C. Employees of the business only
- D. Authorized drivers listed on the policy

In a business auto coverage form, the definition of an insured is broad and inclusive. The correct choice indicates that anyone who is using a covered auto owned by the named insured qualifies as an insured, provided they have permission to do so. This means that the policy extends coverage not only to the business owner but also to any individuals who may be operating the vehicle with the owner's consent. This provision is crucial because it allows the business to operate flexibly, enabling employees and certain others to use company vehicles without the need for them to be explicitly named on the policy as authorized drivers. This understanding of who qualifies as an insured is important as it impacts how liability claims are handled in the event of an accident involving the covered auto. It encompasses a wide range of potential drivers, enhancing the protection for the business and its assets. Other choices, while addressing certain groups, do not fully reflect the coverage as outlined in the business auto policy. The business owner alone does not capture the scope of the policy's coverage, neither does it make sense to restrict coverage to just employees or only to authorized drivers explicitly listed on the policy. Recognizing the expansive nature of coverage for anyone with permission aligns with the overarching intent of ensuring vehicles can be utilized effectively for business operations