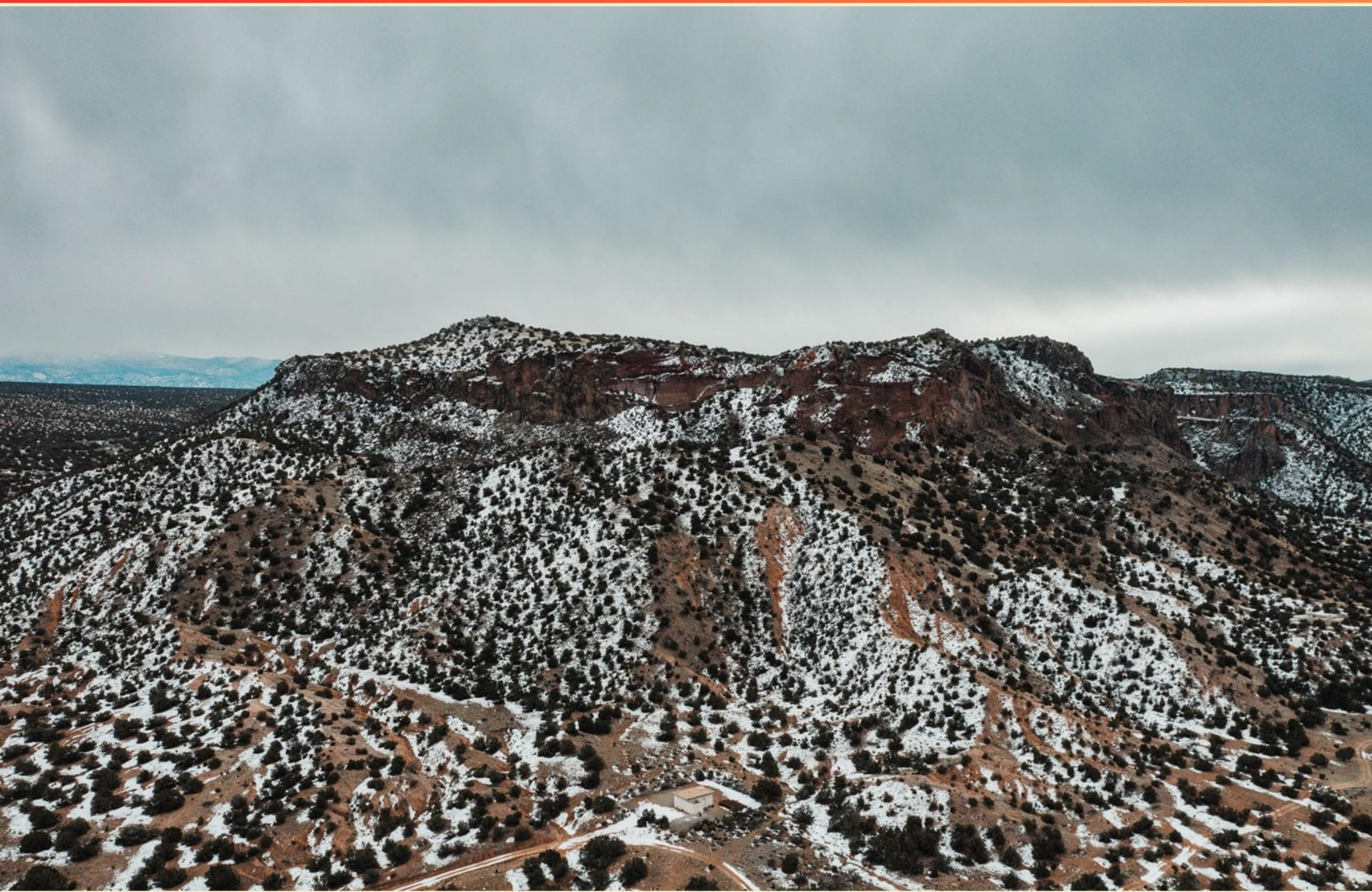


NEW MEXICO PROPERTY AND CASUALTY PRACTICE TEST (SAMPLE)

STUDY GUIDE



**SAMPLE STUDY GUIDE
WITH LIMITED QUESTIONS**

**VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE**

<https://nmpropertyandcasualty.examzify.com>



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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. When is the coverage considered in force for a home insurance policy?**
 - A. When the policy is issued
 - B. When the premium is paid and the policy is active
 - C. When the insured files a claim
 - D. When the home inspection is completed
- 2. What type of coverage do Supplementary Payments provide in liability policies?**
 - A. Coverage equal to policy limits
 - B. Coverage above and beyond policy limits
 - C. No additional coverage
 - D. Coverage only for legal fees
- 3. What type of hazard arises from material, structural, or operational features?**
 - A. Morale hazard
 - B. Moral hazard
 - C. Physical hazard
 - D. Financial hazard
- 4. What type of loss refers to actual physical damage or destruction of property?**
 - A. Indirect Loss
 - B. Real Property
 - C. Direct Loss
 - D. Vandalism
- 5. What creates apparent authority for an insurance agent?**
 - A. Written authorization from the insurer
 - B. Action or inaction by the insurer
 - C. Explicit instructions from the agent
 - D. Public perception of the agent's expertise

6. What role does a custodian specifically play in property insurance terms?

- A. Responsible for monitoring property remotely
- B. Responsible for care and custody inside premises
- C. Serves as a legal representative for property claims
- D. Assumes ownership of insured properties

7. What does experience rating take into account when determining premiums?

- A. The average industry loss rates
- B. The number of claims made by the policyholder
- C. The past experiences or number of losses a factory or company has had
- D. The current economic environment

8. What type of damages does an auto insurance policy typically cover?

- A. Bodily injury, emotional distress, and medical payments
- B. Bodily injury, property damage, and medical payments
- C. Property damage and lost wages only
- D. Bodily injury and punitive damages

9. How is the concept of depreciation relevant to insurance?

- A. It determines the age of an insured item
- B. It is used to calculate actual cash value
- C. It affects the cost of premiums
- D. It is not applicable in insurance

10. What best describes the relationship between brokers and insurers?

- A. Brokers represent the insurers only
- B. Brokers represent the insured but are compensated by the insurer
- C. Brokers do not receive compensation
- D. Brokers work exclusively with government insurers

Answers

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

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Explanations

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1. When is the coverage considered in force for a home insurance policy?

- A. When the policy is issued
- B. When the premium is paid and the policy is active**
- C. When the insured files a claim
- D. When the home inspection is completed

The coverage for a home insurance policy is considered in force when the premium is paid and the policy is active. This means that until the policyholder fulfills their obligation to pay the required premium, the insurer is not obligated to provide coverage. Payment of the premium is a crucial step in activating the policy; without it, even if the policy is issued or a home inspection is completed, no insurance coverage exists. The policyholder must ensure that all conditions, such as payment, are met for the coverage to take effect, allowing for protection against potential risks associated with homeownership.

2. What type of coverage do Supplementary Payments provide in liability policies?

- A. Coverage equal to policy limits
- B. Coverage above and beyond policy limits**
- C. No additional coverage
- D. Coverage only for legal fees

Supplementary Payments in liability policies extend coverage beyond the standard policy limits. This kind of coverage is particularly valuable because it helps to cover certain expenses and costs that may arise during the defense of a liability claim, such as court costs, legal fees, and other related expenses that can quickly add up. By offering coverage above and beyond the policy limits, Supplementary Payments ensure that the insured is protected against unexpected costs that might otherwise deplete their financial resources or affect their ability to settle claims. For instance, while the primary policy might have a limit on the amount it will pay for damages, the Supplementary Payments could include costs like bail bonds, while also covering interest on a judgment that accrues after the policy limit has been reached. This broadens the financial protection for the insured, facilitating better risk management in legal scenarios.

3. What type of hazard arises from material, structural, or operational features?

- A. Morale hazard
- B. Moral hazard
- C. Physical hazard**
- D. Financial hazard

A physical hazard is defined as a risk that arises from the material, structural, or operational features of a property. It involves tangible attributes that can increase the likelihood of a loss occurring. For instance, an outdated electrical system in a building could pose a greater risk for fire, or slippery floors could lead to slips and falls. This type of hazard is distinct from other types because it is concrete and observable, unlike moral and morale hazards, which are more related to human behavior and attitudes towards risk. Financial hazards often refer to risks that affect an entity's financial stability but do not directly pertain to the physical characteristics of a property. Understanding physical hazards is essential for risk assessment and management in property and casualty insurance, as it involves evaluating how these inherent characteristics may lead to potential losses.

4. What type of loss refers to actual physical damage or destruction of property?

- A. Indirect Loss
- B. Real Property
- C. Direct Loss**
- D. Vandalism

The correct answer is direct loss because this term specifically refers to the immediate and tangible damage or destruction of property. When a property suffers a fire, flood, or any other catastrophic event that results in physical harm, this scenario exemplifies direct loss. Insurance policies often cover this type of loss, as it directly affects the asset's value and usability. Other potential answers relate to different concepts. For example, indirect loss pertains to financial consequences that arise from a direct loss, such as lost income during the period of property repair. Real property is a term used to describe land and anything attached to it, rather than focusing specifically on the loss aspect. Vandalism describes a type of behavior that may cause damage, but it does not encompass the broader concept of loss, particularly the immediate physical damage implied in direct loss.

5. What creates apparent authority for an insurance agent?

- A. Written authorization from the insurer
- B. Action or inaction by the insurer**
- C. Explicit instructions from the agent
- D. Public perception of the agent's expertise

Apparent authority for an insurance agent is established through the actions or inaction of the insurer, which leads third parties to a reasonable belief that the agent has the authority to act on behalf of the insurer. This concept arises from the idea that if the insurer behaves in a way that suggests authority, such as allowing the agent to operate in the market without clearly defining the limitations of their power, then the insurer may be bound by the decisions or representations made by the agent. For instance, if an insurance company permits an agent to consistently negotiate terms with clients without oversight or explicitly communicates that the agent has the authority to make certain decisions, clients may reasonably assume the agent has broader authority than what may actually be the case. This understanding protects third parties who engage with the agent, ensuring they can rely on the agent's apparent authority based on the insurer's behavior. In contrast, written authorization from the insurer and explicit instructions from the agent might contribute to a clear understanding of authority but do not establish apparent authority, as this concept stems primarily from the impressions created by the insurer's actions. Public perception of the agent's expertise may influence clients' trust but does not itself constitute apparent authority without the backing of insurer behavior.

6. What role does a custodian specifically play in property insurance terms?

- A. Responsible for monitoring property remotely
- B. Responsible for care and custody inside premises**
- C. Serves as a legal representative for property claims
- D. Assumes ownership of insured properties

In the context of property insurance, the role of a custodian is specifically related to the care and custody of the insured property while it is located on the premises. This individual or entity is tasked with the responsibility of looking after the property, ensuring its safety, and managing it appropriately. The custodian's duties may involve overseeing storage, maintaining the condition of the property, and being the point of contact for any incidents involving the insured items. For example, if an insured item is damaged or stolen, the custodian's role becomes crucial in assessing the loss and facilitating communication with the insurance provider.

Understanding the function of a custodian helps clarify the broader responsibilities involved in property insurance. Other roles, such as monitoring property remotely or serving as a legal representative for claims, fall outside the purview of a custodian's specific responsibilities. Additionally, a custodian does not assume ownership of the insured properties, as their role is to maintain and protect rather than own the assets.

7. What does experience rating take into account when determining premiums?

- A. The average industry loss rates
- B. The number of claims made by the policyholder
- C. The past experiences or number of losses a factory or company has had**
- D. The current economic environment

Experience rating focuses specifically on the past experiences or the number of losses a policyholder has incurred. This method assesses the individual claims history of a business to help determine its insurance premiums. By analyzing how frequently and severely the insured entity has had losses in the past, insurers can tailor premiums to better reflect the risk that particular policyholder presents. A company that has had a higher number of claims or larger losses may be assigned a higher premium compared to one with fewer or lesser claims, as it indicates a higher likelihood of future claims. The other options, while they may influence aspects of insurance practices, do not specifically pertain to experience rating. For instance, average industry loss rates provide a broader context but do not tailor premiums to individual policyholder behaviors. Additionally, the number of claims made by the policyholder is related to their experience but is not the sole determining factor; rather, it is the overall impact of those claims over time that matters. Lastly, the current economic environment might influence general market conditions but does not directly affect the underwriting of premiums based on historical loss experience. Understanding experience rating is crucial for policyholders as it emphasizes the importance of loss prevention and management in controlling insurance costs.

8. What type of damages does an auto insurance policy typically cover?

- A. Bodily injury, emotional distress, and medical payments
- B. Bodily injury, property damage, and medical payments**
- C. Property damage and lost wages only
- D. Bodily injury and punitive damages

An auto insurance policy typically covers bodily injury, property damage, and medical payments, which makes this answer the most comprehensive and accurate portrayal of the types of damages typically included in such policies. Bodily injury coverage helps pay for medical expenses, lost wages, and pain and suffering that arise when the insured is at fault in an accident that injures another person. Property damage liability coverage provides financial protection if the policyholder causes damage to someone else's property, such as their vehicle or another object. Medical payments coverage assists with the payment of medical expenses for the insured and passengers in their vehicle after an accident, regardless of who is at fault. While other answer choices mention important issues, they either contain incomplete coverage or mischaracterize the types of damages. For instance, emotional distress is not typically covered under standard auto insurance, and punitive damages are rare in auto insurance claims. By understanding the core elements of coverage—bodily injury, property damage, and medical payments—you can better grasp the protections an auto insurance policy provides.

9. How is the concept of depreciation relevant to insurance?

- A. It determines the age of an insured item
- B. It is used to calculate actual cash value**
- C. It affects the cost of premiums
- D. It is not applicable in insurance

The relevance of depreciation in insurance primarily relates to its role in calculating the actual cash value (ACV) of an insured item. Actual cash value is defined as the replacement cost of the item minus any depreciation. Depreciation accounts for the wear and tear or the reduction in value that occurs over time due to age, condition, or obsolescence. This means that when a claim is filed, the insurance company will assess the current value of the item, which factors in depreciation to determine the amount of money to be reimbursed to the policyholder. In contrast, the other choices do not accurately represent the function of depreciation in the insurance context. While depreciation might give a sense of how long an item has been in use, it does not straightforwardly indicate just the age of the item. Also, while depreciation can influence an individual's perception of an item's value, it does not have a direct impact on the cost of insurance premiums in a straightforward way. Finally, stating that depreciation is not applicable in insurance would be incorrect, as understanding how depreciation affects the payout in claims is crucial in underwriting policies and settling claims. This understanding underscores the importance of the correct answer in the context of insurance principles.

10. What best describes the relationship between brokers and insurers?

- A. Brokers represent the insurers only
- B. Brokers represent the insured but are compensated by the insurer**
- C. Brokers do not receive compensation
- D. Brokers work exclusively with government insurers

Brokers play a crucial role in the insurance industry by serving as intermediaries between the insured (the client seeking insurance) and the insurers (the companies providing coverage). The defining characteristic of brokers is that they represent the interests of the insured, working to find policies that best meet their clients' needs. Even though brokers primarily advocate for the insured, they are often compensated by the insurers through commissions. This arrangement allows brokers to provide their services to clients without direct charges, as they are paid by the insurance companies upon the successful placement of a policy. This dual relationship can sometimes create potential conflicts of interest, emphasizing the importance of transparency in how brokers operate and how they are paid. Other options presented do not accurately reflect the nature of this relationship. Brokers do not represent insurers only, do receive compensation for their work, and do not work exclusively with government insurers. This distinction solidifies the importance of the broker's role in ensuring that clients receive appropriate insurance coverage tailored to their specific needs.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://nmpropertyandcasualty.examzify.com>

We wish you the very best on your exam journey. You've got this!

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