

North Carolina Insurance Statutes and Regulations Practice Test (Sample)

Study Guide



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SAMPLE

Questions

- 1. Who is responsible for maintaining the database for license status in the insurance industry?**
 - A. NAIC (National Association of Insurance Commissioners)**
 - B. State Insurance Department**
 - C. Federal Insurance Bureau**
 - D. Private Insurance Associations**
- 2. What is “rebating” in the context of insurance?**
 - A. Offering a discount on premiums**
 - B. Offering something of value as inducement to buy insurance**
 - C. Providing free additional coverage**
 - D. Donating to a charity on behalf of the policyholder**
- 3. What is the consequence for an agent selling insurance without a license in North Carolina?**
 - A. A warning from the state**
 - B. A misdemeanor charge with potential penalties**
 - C. Revocation of other financial licenses**
 - D. A civil lawsuit from affected clients**
- 4. How is a property considered insurable under NCIUA?**
 - A. It must be located near a beach**
 - B. It must be in insurable condition at a fixed location**
 - C. It should have a minimum value**
 - D. It must have been insured previously**
- 5. What must insurers disclose when providing a policy quote in North Carolina?**
 - A. The total profit margin of the company**
 - B. The types of coverage, limits, and any exclusions**
 - C. The history of previous claims of the insurer**
 - D. The personal background of the insurance agent**

- 6. What is required for an individual to obtain a resident insurance producer license in North Carolina?**
- A. Completion of a high school diploma only**
 - B. Completion of pre-licensing education and passing the state licensing exam**
 - C. Experience in the financial industry for at least two years**
 - D. Meeting a minimum income requirement**
- 7. Who holds the authority to enforce insurance regulations in North Carolina?**
- A. The Governor of North Carolina**
 - B. Insurance brokers statewide**
 - C. The Insurance Commissioner and the NCDOI**
 - D. The North Carolina State Legislature**
- 8. What amount of property damage indicates a major accident?**
- A. Above 1000**
 - B. 2500-3000**
 - C. Above 3000**
 - D. 1500-2500**
- 9. How is a minor accident defined in the context of insurance?**
- A. Involving property damage under \$1,000**
 - B. Involving bodily injury**
 - C. Involving an accident with no fatalities**
 - D. Under 1800**
- 10. In North Carolina, what is the required continuing education for insurance agents?**
- A. 12 hours every year**
 - B. 24 hours every two years**
 - C. 36 hours every three years**
 - D. 48 hours every five years**

Answers

SAMPLE

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

SAMPLE

Explanations

1. Who is responsible for maintaining the database for license status in the insurance industry?

- A. NAIC (National Association of Insurance Commissioners)**
- B. State Insurance Department**
- C. Federal Insurance Bureau**
- D. Private Insurance Associations**

The National Association of Insurance Commissioners (NAIC) provides comprehensive support for state insurance regulators, but it is the State Insurance Department that is directly responsible for maintaining databases related to license status within the insurance industry. The State Insurance Department manages and oversees the licensing and regulatory activities of insurance professionals in their jurisdiction, ensuring compliance with state laws and regulations. The NAIC serves as a forum for the state insurance regulators to coordinate their actions and harmonize regulations but does not maintain individual databases for license status; that responsibility lies with each state's department. The other options, such as the Federal Insurance Bureau and Private Insurance Associations, do not have the authority or function to maintain license status databases. Instead, their roles are more focused on various regulatory or industry support functions that do not include direct management of license records.

2. What is “rebating” in the context of insurance?

- A. Offering a discount on premiums**
- B. Offering something of value as inducement to buy insurance**
- C. Providing free additional coverage**
- D. Donating to a charity on behalf of the policyholder**

Rebating refers to the practice of offering something of value, such as money or other incentives, as an inducement for a potential client to purchase an insurance policy. This practice is typically considered unethical and is prohibited by most state insurance regulations, including those in North Carolina, because it can distort the insurance market and create unfair competitive advantages. In the context of insurance, rebating is designed to influence the decision-making process of consumers, often leading them to select a policy based on the added benefits or discounts rather than the merits of the coverage itself. By enticing customers with gifts, cash, or other advantages, agents may prioritize personal gain or sales quotas over providing the best advice or options suited to the client's needs. The other options, while they involve different aspects of insurance transactions, do not fit the definition of rebating. Offering a discount on premiums or providing free additional coverage relates more to standard pricing practices or promotional strategies within the boundaries of regulatory compliance. Donating to a charity on behalf of a policyholder does not directly relate to influencing the purchase of a policy and is not an inducement in the context of rebating. Thus, the correct understanding of rebating highlights its role as an improper inducement in the insurance market.

3. What is the consequence for an agent selling insurance without a license in North Carolina?

- A. A warning from the state**
- B. A misdemeanor charge with potential penalties**
- C. Revocation of other financial licenses**
- D. A civil lawsuit from affected clients**

In North Carolina, selling insurance without a valid license is treated as a serious violation of state law. The correct consequence for such actions is a misdemeanor charge, which carries potential penalties. This can result in fines and, in some cases, possible imprisonment, reflecting the state's commitment to regulating the insurance industry and protecting consumers from unlicensed practices. Licensing requirements are in place to ensure that insurance agents possess the necessary knowledge and adhere to ethical standards when providing services to clients. Engaging in this business without a license undermines these standards and can expose individuals and their clients to risks. While there are other consequences related to unlicensed activity, such as the potential for a civil lawsuit from affected clients or even repercussions in other financial licensing areas, the immediate legal consequence in North Carolina specifically identifies the act as a misdemeanor. This designation highlights the importance of adhering to licensing laws in the insurance field.

4. How is a property considered insurable under NCIUA?

- A. It must be located near a beach**
- B. It must be in insurable condition at a fixed location**
- C. It should have a minimum value**
- D. It must have been insured previously**

In North Carolina, for property to be considered insurable under the North Carolina Insurance Underwriting Association (NCIUA), it is essential that the property is in insurable condition and located at a fixed location. This requirement serves to ensure that the property meets certain safety and structural criteria, making it a viable candidate for coverage. Insurable condition implies that the property adheres to standards that mitigate risks associated with insuring it, which can include physical characteristics, maintenance levels, and compliance with building codes. The idea of being in a fixed location emphasizes the need for the property to be identifiable and assessable, which are crucial factors for determining insurance premiums and coverage. This standard helps the insurer evaluate risk more effectively, as properties that are movable or not clearly defined may pose additional uncertainties. Understanding this requirement provides crucial insight into the underwriting process and helps identify which properties qualify for insurance coverage, ultimately assisting homeowners and property owners in making informed decisions regarding their insurance needs.

5. What must insurers disclose when providing a policy quote in North Carolina?

- A. The total profit margin of the company**
- B. The types of coverage, limits, and any exclusions**
- C. The history of previous claims of the insurer**
- D. The personal background of the insurance agent**

When providing a policy quote in North Carolina, insurers are required to disclose the types of coverage, limits, and any exclusions associated with the policy. This requirement is fundamental to ensure transparency and allow consumers to make informed decisions about their insurance options. Understanding the specifics of coverage helps potential policyholders assess whether the insurance meets their needs, as it outlines what is included in the policy and what is not covered. This clarity around limits and exclusions empowers consumers to compare different policies effectively, ensuring they choose an option that provides adequate protection for their circumstances. While other factors like profit margins, claims history, or the insurance agent's background may be relevant in some contexts, they do not fall under the immediate disclosure requirements when generating a quote. The emphasis is placed on the actual coverage being offered so that individuals can adequately evaluate the policy's value and applicability to their situation.

6. What is required for an individual to obtain a resident insurance producer license in North Carolina?

- A. Completion of a high school diploma only**
- B. Completion of pre-licensing education and passing the state licensing exam**
- C. Experience in the financial industry for at least two years**
- D. Meeting a minimum income requirement**

To obtain a resident insurance producer license in North Carolina, an individual must complete pre-licensing education and pass the state licensing exam. This requirement ensures that candidates possess the necessary knowledge and understanding of insurance products, state laws, and ethical considerations before they can practice in the field. Pre-licensing education typically covers topics such as the principles of insurance, types of policies, underwriting processes, and the regulatory framework governing insurance in North Carolina. Following this educational component, candidates are required to demonstrate their comprehension and readiness to practice by passing a state licensing examination, which tests their knowledge in these areas. Meeting these criteria protects consumers by ensuring that licensed insurance producers are adequately trained and competent. While other options listed may seem relevant, they do not fulfill the requirements set by the North Carolina Department of Insurance for obtaining a resident insurance producer license. A high school diploma, relevant work experience, or income requirements do not substitute for the structured education and passing of the exam necessary for licensure.

7. Who holds the authority to enforce insurance regulations in North Carolina?

- A. The Governor of North Carolina**
- B. Insurance brokers statewide**
- C. The Insurance Commissioner and the NCDOI**
- D. The North Carolina State Legislature**

The authority to enforce insurance regulations in North Carolina lies with the Insurance Commissioner and the North Carolina Department of Insurance (NCDOI). The Insurance Commissioner is responsible for administering and enforcing the state's insurance laws, which includes overseeing the conduct of insurance companies, agents, and brokers. This role is vital for protecting consumers, ensuring that insurance companies operate in a financially sound manner, and maintaining the integrity of the insurance marketplace. The NCDOI also plays a key role by providing guidance, conducting examinations, and taking necessary actions against entities that violate insurance regulations. Together, the Commissioner and the NCDOI ensure compliance with state laws concerning insurance and work to promote fair business practices in the industry. This established framework provides a clear governance structure within which the insurance sector operates in North Carolina, emphasizing the importance of regulatory oversight for consumer protection and market stability.

8. What amount of property damage indicates a major accident?

- A. Above 1000**
- B. 2500-3000**
- C. Above 3000**
- D. 1500-2500**

In North Carolina, a major accident is typically defined by the extent of property damage incurred. The threshold for what constitutes a major accident is set at damages above a specific monetary value, which reflects a significant incident requiring reporting and potentially involving serious consequences for insurance and law enforcement records. The correct answer indicates that property damage exceeding \$3,000 qualifies as a major accident. This delineation is important as it aligns with statutory requirements for reporting, regulatory assessment, and insurance implications. Incidents that surpass this financial threshold often lead to more complex claims processes and legal scrutiny, as they are deemed serious enough to potentially result in significant injuries or fatalities. Understanding the classification of accidents based on property damage assists both insurers and policyholders in navigating claims effectively and ensures that serious accidents are appropriately documented and managed within the framework of state regulations.

9. How is a minor accident defined in the context of insurance?

- A. Involving property damage under \$1,000**
- B. Involving bodily injury**
- C. Involving an accident with no fatalities**
- D. Under 1800**

In the context of insurance, a minor accident is typically defined as an accident that involves minimal financial repercussions, often characterized by a lower threshold for property damage or injuries. The definition indicating "under 1800" alludes to a specific metric that may be recognized in insurance regulations or guidelines pertaining to accidents that are considered minor based on established criteria. Defining a minor accident in this way allows insurers to categorize and assess claims efficiently, ensuring that they reserve their resources for more severe incidents that may incur higher costs or risks. The reference to an amount "under 1800" suggests a recognition of a certain severity level that is not expected to lead to significant injuries or liabilities, thereby facilitating a clearer response in terms of coverage and claims management. By recognizing minor accidents within this specific monetary framework, insurers can implement better risk management strategies and ensure that claims processing significantly reflects the severity and impact of the accident on insured parties.

10. In North Carolina, what is the required continuing education for insurance agents?

- A. 12 hours every year**
- B. 24 hours every two years**
- C. 36 hours every three years**
- D. 48 hours every five years**

In North Carolina, insurance agents are required to complete 24 hours of continuing education every two years. This requirement ensures that agents stay current with the latest developments in insurance laws, products, and industry standards. The emphasis on continuing education is meant to enhance the professionalism and competency of insurance agents, allowing them to better serve their clients and navigate complex insurance issues. The choice of 24 hours every two years aligns with many professional development standards not only for the insurance industry but also for other licensed professions. This balance of hours allows agents to engage in various educational activities while ensuring that they refresh their knowledge and skills frequently. In contrast, other options like 12 hours each year, 36 hours every three years, or 48 hours every five years do not conform to the established requirements for North Carolina insurance agents, highlighting the importance of understanding state-specific regulations regarding continuing education.