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PRACTICE QUESTIONS

Arizona Insurance

ERGLDH32

AZ Insurance Producer - Property (commercial and noncommercial)

EDITION	QUESTIONS	FORMAT
Demo	9	Limited Edition PDF

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Before you begin

What this is

9 practice questions for Arizona Insurance `ERGLDH32`, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, `ERGLDH32`
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1 MULTIPLE CHOICE

Which of the following are considered the basic elements that must be present for a valid insurance contract? (Choose three.)

- **A** **Offer and acceptance**
- **B** **Consideration**
- **C** **Insurable interest**
- D Proof of loss

ANSWER **A · B · C**

WHY A valid insurance contract requires offer and acceptance, consideration (the premium and the insurer's promise to pay), and an insurable interest on the part of the insured. Proof of loss is a condition that arises after a loss occurs, not a basic element of contract formation.

QUESTION 2 SINGLE CHOICE

An insured owns a rental home that is currently being rented to a tenant. The home is destroyed by fire. Under the principle of insurable interest, which of the following statements is correct?

- A The insured has no insurable interest because the home is not owner-occupied.
- **B** **The insured has an insurable interest based on the possibility of financial loss.**
- C The insured's insurable interest ends as soon as a tenant takes possession.
- D The insured has an insurable interest only if the tenant does not have renter's insurance.

ANSWER **B**

WHY An insurable interest exists whenever a person has a legal or equitable relationship to property such that its loss would cause them financial harm. Property owners retain an insurable interest in rental real estate because loss of the structure would damage their financial position, regardless of occupancy.

QUESTION 3 SINGLE CHOICE

In property insurance, the term 'peril' refers to:

- **A** **The cause of a possible loss, such as fire or theft**
- B The item or property that is exposed to loss
- C A specific exclusion in the policy
- D The maximum amount the insurer will pay for any one loss

ANSWER **A**

WHY A peril is the cause of a loss, such as fire, windstorm, or theft. The property exposed to loss is the subject of insurance. Exclusions and policy limits are separate contractual concepts.

QUESTION 4 SINGLE CHOICE

Under the HO-3 homeowner policy, dwelling coverage is provided on which basis?

- A Named perils only
- **B** **Open perils (all risks except those specifically excluded)**
- C Replacement cost only if the dwelling is less than 10 years old
- D Actual cash value regardless of cause of loss

ANSWER **B**

WHY The HO-3 (Special Form) provides dwelling coverage on an open-perils basis, meaning coverage applies to all perils except those specifically excluded in the policy. Personal property under HO-3 is covered on a named-perils basis unless endorsed.

QUESTION 5 SINGLE CHOICE

Under a standard NFIP dwelling policy, which of the following is true regarding coverage of the insured dwelling?

A The dwelling is covered for flood on an actual cash value basis.

B The dwelling is covered for flood on a replacement-cost basis up to policy limits.

C The dwelling is covered only for contents losses.

D The dwelling is covered only if the insured also has a homeowners policy.

ANSWER **B**

WHY Under the standard NFIP dwelling policy (and the newer Dwelling Form), the building (and its components) is insured against direct physical loss from flood on a replacement-cost basis up to the policy limit. Personal property is covered on an actual cash value basis unless replacement-cost coverage is elected.

QUESTION 6 SINGLE CHOICE

Which of the following factors is most likely to increase the premium on a residential property insurance policy?

A Installation of a monitored central-station burglar and fire alarm

B Construction of the dwelling with masonry rather than frame materials

C Location of the property in a Protection Class 1 fire response area

D Presence of a wood-burning stove used as the primary heat source

ANSWER **D**

WHY A wood-burning stove used as the primary heat source is considered an increased hazard and will typically raise the premium, or even result in a policy declination, due to the elevated fire risk. The other options generally reduce premiums or improve risk acceptability.

QUESTION 7 SINGLE CHOICE

The Commercial Property Causes of Loss—Special Form (CP 10 30) covers which of the following?

A Only the perils specifically named in the policy

B All perils except those specifically excluded

C Only perils named in the Basic Causes of Loss Form

D Only perils typically excluded from property coverage, such as flood and earthquake

ANSWER **B**

WHY The Causes of Loss—Special Form (CP 10 30) provides 'all-risk' (open perils) coverage, meaning it pays for direct physical loss from any cause of loss that is not specifically excluded. The Basic (CP 10 10) and Broad (CP 10 20) forms, by contrast, are named-perils forms.

QUESTION 8 SINGLE CHOICE

Under a standard homeowner policy, Coverage D (Loss of Use) pays for which of the following when the insured dwelling is damaged by a covered peril?

A The market value of the home while it is being repaired

B Additional living expenses and fair rental value incurred because the home is uninhabitable

C The full mortgage payment owed during repairs

D Only the cost of moving household goods to a new residence

ANSWER **B**

WHY Coverage D (Loss of Use) in a homeowner policy provides additional living expense (ALE) for the insured if the home is uninhabitable, and fair rental value if a portion of the home is rented to others. It does not cover the mortgage or market value.

QUESTION 9 MULTIPLE CHOICE

Which of the following perils are commonly excluded from standard homeowner and commercial property policies? (Choose two.)

- A **Flood**
- B Fire
- C **Earthquake**
- D Windstorm

ANSWER **A · C**

WHY Flood and earthquake are standard exclusions in most homeowner (HO) and commercial property policies and require separate coverage (such as an NFIP flood policy or a DIC or difference-in-conditions policy for earthquake). Fire and windstorm are generally covered under the unendorsed policy.