

# Washington State Insurance Practice Exam (Sample)

## Study Guide



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**SAMPLE**

## **Questions**

- 1. What are "CGL policies" in the context of insurance?**
  - A. Commercial General Liability policies**
  - B. Comprehensive General Life policies**
  - C. Cost-effective Global Liability policies**
  - D. Combined General Liability policies**
- 2. What does class rating refer to in insurance?**
  - A. Computing a price per unit of insurance for all applicants with a given set of characteristics**
  - B. Evaluating individual risk based on past experience**
  - C. Self-rating plan based on actual losses during policy period**
  - D. Using a schedule of charges and credits to some base rate**
- 3. What is the primary purpose of the insurance commissioner?**
  - A. To create new insurance policies**
  - B. To sell insurance products to consumers**
  - C. To oversee the insurance industry's regulation**
  - D. To evaluate insurance claims**
- 4. Which of the following best describes the service model of HMOs?**
  - A. Members can choose any provider without restrictions**
  - B. Members must seek care from in-network providers**
  - C. They provide services only in emergencies**
  - D. They focus solely on preventive services**
- 5. What does malpractice insurance typically cover?**
  - A. General liability risk**
  - B. Claims of negligence or inadequate performance**
  - C. Property damage due to accidents**
  - D. Life insurance benefits**

- 6. What does specific insurance cover?**
- A. A single location under one policy**
  - B. A specific kind or unit of property for a specific amount of insurance**
  - C. Multiple types of property at various locations**
  - D. Personal liabilities only**
- 7. What is express authority in an insurance context?**
- A. Authority derived through actions**
  - B. Authority derived through circumstances**
  - C. Authority written in the contract**
  - D. Authority inferred by general business practices**
- 8. What are the two main types of insurance coverage?**
- A. Health and Life**
  - B. Property and Liability**
  - C. Personal and Commercial**
  - D. Auto and Home**
- 9. What is a common advantage of blanket insurance compared to specific insurance?**
- A. Lower deductibles**
  - B. Simplified payment structures**
  - C. Single property coverage**
  - D. Coverage across multiple locations or items**
- 10. What type of damages includes compensation for pain and suffering?**
- A. General damages**
  - B. Special damages**
  - C. Absolute damages**
  - D. Primary damages**

## **Answers**

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

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## **Explanations**

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## 1. What are "CGL policies" in the context of insurance?

- A. Commercial General Liability policies**
- B. Comprehensive General Life policies**
- C. Cost-effective Global Liability policies**
- D. Combined General Liability policies**

CGL policies refer to "Commercial General Liability policies." These are a standard form of insurance coverage that protects businesses from a variety of claims such as bodily injury, property damage, and personal injury that can occur during the course of business operations. They are essential for businesses as they cover legal costs, medical expenses, and damages that may arise from incidents on business premises or as a result of business activities. Commercial General Liability policies are designed to offer broad coverage, which is why they are a foundation for commercial insurance. Businesses of all types typically need this coverage to safeguard against risks that could financially threaten their operations. Understanding CGL policies is crucial for anyone in the insurance industry or for business owners looking to manage their risk exposures effectively. The other choices provided do not accurately reflect the standard terminology used in the insurance industry for this type of coverage and therefore do not capture the essence of what CGL policies are meant to convey.

## 2. What does class rating refer to in insurance?

- A. Computing a price per unit of insurance for all applicants with a given set of characteristics**
- B. Evaluating individual risk based on past experience**
- C. Self-rating plan based on actual losses during policy period**
- D. Using a schedule of charges and credits to some base rate**

Class rating refers to computing a price per unit of insurance for all applicants with a given set of characteristics. This method involves grouping applicants with similar characteristics into classes and assigning a specific rate to each class based on the expected loss experience associated with those characteristics. This system allows for a more efficient and standardized way of setting insurance premiums for different sets of risks. Now, let's discuss why the other options are incorrect: - Evaluating individual risk based on past experience (Option B) refers to experience rating, not class rating. - Self-rating plan based on actual losses during the policy period (Option C) relates to retrospective rating, where premiums are adjusted based on actual loss experience during the policy term. - Using a schedule of charges and credits to some base rate (Option D) aligns with the concept of merit rating, which involves adjusting the base rate up or down based on the specific characteristics of individual risks.

**3. What is the primary purpose of the insurance commissioner?**

- A. To create new insurance policies**
- B. To sell insurance products to consumers**
- C. To oversee the insurance industry's regulation**
- D. To evaluate insurance claims**

The primary purpose of the insurance commissioner is to oversee the regulation of the insurance industry. This role involves ensuring that insurance companies comply with state laws, protecting consumers, and maintaining a stable insurance market. The commissioner has the authority to issue regulations, license insurers, and monitor their financial health to ensure they can meet policyholder obligations. This oversight is crucial for maintaining public trust in the insurance system and for promoting fair practices within the industry. The other options do not accurately reflect the responsibilities associated with the insurance commissioner's role. Creating new insurance policies is typically the domain of insurance companies themselves, while selling insurance products involves agents or brokers. Evaluating insurance claims may be part of adjusting or claims management functions handled by the insurers, but it is not a primary duty of the insurance commissioner.

**4. Which of the following best describes the service model of HMOs?**

- A. Members can choose any provider without restrictions**
- B. Members must seek care from in-network providers**
- C. They provide services only in emergencies**
- D. They focus solely on preventive services**

The service model of Health Maintenance Organizations (HMOs) is characterized by the requirement that members seek care from in-network providers. This model is designed to provide coordinated care and manage costs effectively. By requiring members to use a network of contracted healthcare providers, HMOs can negotiate lower fees and ensure that care is delivered within a consistent framework. This approach emphasizes the importance of a primary care physician who oversees the patient's healthcare and refers them to specialists within the network as needed. This structure not only helps to control costs but also promotes preventive care and overall wellness among members. In contrast, the other options do not accurately reflect the HMO model. Allowing members to choose any provider without restrictions would describe a fee-for-service model, which is not how HMOs operate. The option stating that services are provided only in emergencies misrepresents the HMO's emphasis on both urgent and routine care. Lastly, while HMOs do prioritize preventive services, stating they focus solely on these services overlooks the comprehensive nature of care they provide, which includes treatment for acute and chronic conditions as well.

## 5. What does malpractice insurance typically cover?

- A. General liability risk
- B. Claims of negligence or inadequate performance**
- C. Property damage due to accidents
- D. Life insurance benefits

Malpractice insurance is designed specifically to protect professionals against claims of negligence, error, or inadequate performance in the services they provide. This type of insurance is crucial for individuals in various professions, such as healthcare providers, lawyers, and accountants, where the absence of adequate care or professional judgment could lead to significant financial consequences for clients. The coverage typically extends to legal costs associated with defending against such claims, as well as any settlements or judgments that may arise from a lawsuit. Therefore, it plays a vital role in mitigating financial risks associated with professional liability. While other types of insurance may cover general liability, property damage, or life insurance benefits, they do not encompass the specific risks associated with malpractice. General liability insurance addresses broader risks like bodily injury or property damage but does not specifically cover negligence in professional services. Similarly, property damage and life insurance are unrelated to the performance of professional duties and do not provide the tailored protection needed for malpractice claims. Thus, focusing on claims of negligence or inadequate performance directly addresses the needs of professionals who face these types of risks in their occupational practices.

## 6. What does specific insurance cover?

- A. A single location under one policy
- B. A specific kind or unit of property for a specific amount of insurance**
- C. Multiple types of property at various locations
- D. Personal liabilities only

Specific insurance covers a specific kind or unit of property for a specific amount of insurance. This type of insurance is designated to provide coverage for a particular item, such as a valuable piece of jewelry, a rare collectible, or a high-end electronic device. By insuring specific items individually, policyholders can ensure that they have adequate coverage for those particular items in case of damage, loss, or theft. This coverage is not meant to apply to multiple types of property at various locations (option C) under one policy, a single location (option A), or personal liabilities only (option D).

## 7. What is express authority in an insurance context?

- A. Authority derived through actions**
- B. Authority derived through circumstances
- C. Authority written in the contract
- D. Authority inferred by general business practices

Express authority in an insurance context refers to authority that is specifically given through written or verbal communication. This type of authority is clear and direct, leaving no room for interpretation. It is essentially derived through the actions and words of the principal (insurance company) that explicitly grant the agent the power to act on their behalf within the confines of the contract. This distinguishes it from implied authority or apparent authority, which are based on circumstances or general business practices.

## 8. What are the two main types of insurance coverage?

- A. Health and Life
- B. Property and Liability**
- C. Personal and Commercial
- D. Auto and Home

The correct response identifies Property and Liability as the two main types of insurance coverage. Property insurance is designed to protect an individual's or business's physical assets, including buildings, equipment, inventory, and personal belongings, against risks such as theft, fire, or natural disasters. This type of coverage ensures that in the event of a loss, the insured can recover financially. Liability insurance, on the other hand, provides protection against claims made by third parties for damages or injuries. It is crucial for protecting individuals and businesses from legal claims that may arise due to negligence or errors that cause harm to others or their property. This coverage is essential in various contexts, including personal injury lawsuits, property damage claims, and professional errors. While Health and Life, Personal and Commercial, and Auto and Home insurance are all valid types of coverage, they fall under broader categories. Health and life insurance specifically focus on health-related expenses and death benefits, while personal and commercial insurance distinguishes between individual and business needs. Auto and home insurance are specific forms of property and liability coverage tailored to vehicles and residences, respectively. Thus, Property and Liability encapsulate the fundamental types of coverage that underpin most insurance policies.

## 9. What is a common advantage of blanket insurance compared to specific insurance?

- A. Lower deductibles
- B. Simplified payment structures
- C. Single property coverage
- D. Coverage across multiple locations or items**

Blanket insurance typically offers coverage across multiple locations or items under a single policy, making it advantageous for businesses or property owners who have diverse assets to insure. This contrasts with specific insurance, which provides coverage for individual properties or items separately. Therefore, the ability of blanket insurance to cover a range of properties or assets under one policy is a key advantage that simplifies the insurance process for the policyholder.

## 10. What type of damages includes compensation for pain and suffering?

- A. General damages**
- B. Special damages
- C. Absolute damages
- D. Primary damages

General damages include compensation for pain and suffering, as well as mental anguish, loss of companionship, and other non-monetary losses that are not easily quantifiable. Special damages, on the other hand, are compensation for specific economic losses such as medical bills and lost wages. Absolute damages and primary damages are not commonly used terms in insurance practice and do not specifically refer to compensation for pain and suffering.