

Washington State Insurance Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. What is "workers' compensation insurance"?**
 - A. Insurance that covers home repairs**
 - B. Insurance providing benefits for work-related injuries**
 - C. Insurance for business liability**
 - D. Insurance for vehicle accidents**
- 2. How is the term "endorsement" best defined in insurance terms?**
 - A. A complete new insurance policy**
 - B. A cancellation of an existing policy**
 - C. A change made to an existing policy**
 - D. A claim made by the insured**
- 3. Why are insurance companies required to maintain "reserves"?**
 - A. To pay for operational expenses**
 - B. To ensure funds are available for future claims payouts**
 - C. To invest in profitable ventures**
 - D. To reduce customer premiums**
- 4. What does liability insurance protect against?**
 - A. Natural disasters and acts of God**
 - B. Claims resulting from injuries and damages**
 - C. Losses from theft or fraud**
 - D. Damage to personal property only**
- 5. Which components determine insurance rates?**
 - A. Broker commissions, investment returns, underwriting guidelines**
 - B. Claim frequency, policyholder credit score, industry standards**
 - C. Loss reserves, loss adjusting expenses, operating expenses, and profits**
 - D. Policy limits, retention rates, premium growth**

- 6. What does "collision coverage" specifically protect?**
- A. Damage to the insured vehicle from non-collision incidents**
 - B. Damage to a vehicle as a result of a crash with another vehicle or object**
 - C. Property theft related to the insured vehicle**
 - D. Medical expenses incurred from an accident**
- 7. Who is considered a policyholder?**
- A. A person who makes claims on an insurance policy**
 - B. An individual or entity that owns an insurance policy**
 - C. A member of an insurance agent team**
 - D. Someone who provides claims adjuster services**
- 8. Which of the following best describes the primary purpose of subrogation?**
- A. To provide additional coverage to the insured**
 - B. To recover costs from third parties after a claim**
 - C. To terminate a policy at the insurer's discretion**
 - D. To evaluate claims before approval**
- 9. What does the term 'occurrence' include in insurance policies?**
- A. Single unexpected events**
 - B. Intentional harm caused by the insured**
 - C. Continuous or repeated exposure to conditions causing injury or damage**
 - D. Only damage to the insured's property**
- 10. Which of the following typically requires the insurer's written consent in property and casualty insurance?**
- A. Changing the coverage limits**
 - B. Assignment of the policy to another party**
 - C. Filing a claim**
 - D. Requesting a refund of premiums**

Answers

SAMPLE

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

SAMPLE

Explanations

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1. What is "workers' compensation insurance"?

- A. Insurance that covers home repairs
- B. Insurance providing benefits for work-related injuries**
- C. Insurance for business liability
- D. Insurance for vehicle accidents

Workers' compensation insurance is specifically designed to provide benefits to employees who suffer injuries or illnesses as a result of their job. This type of insurance covers medical expenses, rehabilitation costs, and lost wages due to the inability to work following a work-related incident. By providing these benefits, workers' compensation serves as a safety net for employees and a form of protection for employers against lawsuits resulting from workplace injuries. The focus of this insurance is solely on work-related incidents, distinguishing it from other types of insurance that cover different risks, such as home repairs, business liability, or vehicle accidents. Understanding the specific functions and coverage areas of workers' compensation is essential for both employees and employers in managing workplace safety and legal responsibilities.

2. How is the term "endorsement" best defined in insurance terms?

- A. A complete new insurance policy
- B. A cancellation of an existing policy
- C. A change made to an existing policy**
- D. A claim made by the insured

In insurance, the term "endorsement" refers to a change made to an existing policy. Endorsements are used to modify the terms of an insurance contract, which can include adding or removing coverage, altering coverage limits, updating the list of insured properties, or making other adjustments to the policy details. This process enables policyholders to customize their insurance coverage according to their specific needs without having to issue an entirely new policy. Endorsements are important because they allow flexibility within an insurance agreement and can address changes in circumstances or requirements. For instance, if a homeowner acquires a new significant asset, such as a valuable piece of jewelry, an endorsement can be added to extend personal property coverage to include this item. The other options do not accurately describe what an endorsement is. A complete new insurance policy would not be termed an endorsement; rather, it is an entirely separate contract. Cancellation of an existing policy signifies a termination of coverage, while a claim made by the insured refers to the formal request for payment or benefits under an insurance policy, which is also unrelated to the definition of an endorsement.

3. Why are insurance companies required to maintain "reserves"?

- A. To pay for operational expenses**
- B. To ensure funds are available for future claims payouts**
- C. To invest in profitable ventures**
- D. To reduce customer premiums**

Insurance companies are required to maintain reserves primarily to ensure that they have adequate funds available for future claims payouts. This is a fundamental aspect of how insurance operates, as these reserves act as a safety net for the insurer, guaranteeing that they can meet their obligations to policyholders when claims are made. Maintaining reserves is crucial for the financial stability of an insurance company. It demonstrates the insurer's ability to cover not only anticipated claims based on statistical predictions but also unexpected losses that may arise. This practice helps build trust with policyholders, as they can have confidence that the insurance company will fulfill its commitments when needed. The other options focus on aspects that are important to an insurance company but do not directly pertain to the necessity of maintaining reserves. For example, operational expenses, while critical to running an insurance business, are funded from different sources and not directly tied to the claims-paying abilities. Investments can enhance the funding for reserves but are not a reason to maintain them. Lastly, while managing reserves can impact premiums indirectly, the primary function of reserves is to cover future claims, not to manipulate pricing strategies.

4. What does liability insurance protect against?

- A. Natural disasters and acts of God**
- B. Claims resulting from injuries and damages**
- C. Losses from theft or fraud**
- D. Damage to personal property only**

Liability insurance is designed to protect individuals and businesses from claims arising due to injuries or damages they may cause to another person or their property. This type of insurance covers the legal costs and any settlements or judgments that may occur as a result of lawsuits related to these claims. When someone is held responsible for an accident that injures another person or damages someone else's property, liability insurance provides financial support to cover those costs. It is essential for protecting assets and ensuring that individuals can manage unforeseen legal obligations resulting from such incidents. In contrast, liability insurance does not cover natural disasters or acts of God, which are typically addressed through property insurance. It also does not protect against losses from theft or fraud, focusing instead on third-party claims. Additionally, liability insurance extends beyond just damage to personal property, incorporating a broader range of potential claims that may arise through interactions with others. Thus, the protection it offers is specifically focused on legal liability for injuries and damages caused to third parties.

5. Which components determine insurance rates?

- A. Broker commissions, investment returns, underwriting guidelines**
- B. Claim frequency, policyholder credit score, industry standards**
- C. Loss reserves, loss adjusting expenses, operating expenses, and profits**
- D. Policy limits, retention rates, premium growth**

The correct answer is A. Broker commissions, investment returns, and underwriting guidelines are all components that can determine insurance rates. Option B is incorrect because claim frequency and policyholder credit score can influence insurance rates, but the inclusion of industry standards is not a primary component in determining rates. Option C is incorrect because while loss reserves, loss adjusting expenses, operating expenses, and profits are important factors for insurance companies, they typically do not directly determine insurance rates for policyholders. Option D is incorrect because while policy limits, retention rates, and premium growth are factors that can affect insurance rates for policyholders, they are not the primary components that determine rates.

6. What does "collision coverage" specifically protect?

- A. Damage to the insured vehicle from non-collision incidents**
- B. Damage to a vehicle as a result of a crash with another vehicle or object**
- C. Property theft related to the insured vehicle**
- D. Medical expenses incurred from an accident**

Collision coverage specifically protects the insured vehicle against damage resulting from a crash, whether it's with another vehicle or an object, such as a pole or a guardrail. This type of coverage is designed to cover repair or replacement costs for the vehicle after an accident, regardless of who is at fault. The focus of collision coverage is on the physical damage to the vehicle itself, distinguishing it from other types of coverage that may relate to personal injury, theft, or incidents that do not involve a collision. For instance, while options that address non-collision incidents, theft, or medical expenses may also be relevant in discussing types of insurance, they fall outside the specific scope of what collision coverage entails.

7. Who is considered a policyholder?

- A. A person who makes claims on an insurance policy**
- B. An individual or entity that owns an insurance policy**
- C. A member of an insurance agent team**
- D. Someone who provides claims adjuster services**

A policyholder is defined as the individual or entity that owns an insurance policy. This ownership implies that the policyholder has the legal rights and obligations associated with the policy, including making premium payments, modifying coverage, and filing claims when needed. This distinction is crucial in the insurance industry because the policyholder is the one who has entered into a contract with the insurance company, thereby enabling them to receive coverage and benefits stipulated in the policy. The other options revolve around interactions with the policy but do not clarify ownership. For instance, a person making claims is acting as a beneficiary under the contract but does not necessarily hold ownership of the policy. An individual on an insurance agent team plays a role in selling or managing policies but does not own the policy themselves. Similarly, someone providing claims adjuster services is responsible for assessing claims but is not recognized as the policyholder since they do not own the insurance policy. Thus, ownership is the key element that makes the second choice the correct answer.

8. Which of the following best describes the primary purpose of subrogation?

- A. To provide additional coverage to the insured**
- B. To recover costs from third parties after a claim**
- C. To terminate a policy at the insurer's discretion**
- D. To evaluate claims before approval**

The primary purpose of subrogation is indeed to recover costs from third parties after a claim. When an insurance company pays a claim to its insured for a loss, it often has the right to pursue the responsible third party to recover that amount. This process allows the insurer to recoup its expenses when another party is at fault and ultimately reduces the overall costs of providing insurance. Subrogation benefits not only the insurance company but also helps in keeping premiums lower for policyholders over time, as it allows insurers to recover funds that might otherwise lead to increased rates. By pursuing recovery, the insurance company strives to maintain a stable financial condition while ensuring fairness among all stakeholders involved.

9. What does the term 'occurrence' include in insurance policies?

- A. Single unexpected events**
- B. Intentional harm caused by the insured**
- C. Continuous or repeated exposure to conditions causing injury or damage**
- D. Only damage to the insured's property**

In insurance policies, the term 'occurrence' typically includes continuous or repeated exposure to conditions causing injury or damage. This means that it is not limited to a single unexpected event but can encompass ongoing or repeated incidents that result in harm or damage. This broader definition allows for coverage in situations where the damage or injury may not be the result of a one-time incident but rather a gradual process. Options A, B, and D are incorrect because they do not fully capture the scope of what 'occurrence' includes in insurance policies. Option A is too narrow in its definition, option B refers to intentional harm caused by the insured which is usually excluded from coverage, and option D limits the term to only damage to the insured's property. Ultimately, option C is the most appropriate choice as it aligns with the comprehensive understanding of 'occurrence' in insurance terms.

10. Which of the following typically requires the insurer's written consent in property and casualty insurance?

- A. Changing the coverage limits**
- B. Assignment of the policy to another party**
- C. Filing a claim**
- D. Requesting a refund of premiums**

In property and casualty insurance, changing the coverage limits typically requires the insurer's written consent. This is because altering coverage limits can impact the level of risk the insurer is exposed to and may affect the terms of the policy. Therefore, it is crucial for the insurer to approve any changes to coverage limits in writing to ensure that both parties are aware of and agree to the new terms. The other options are incorrect because: - Assignment of the policy to another party usually requires notification or consent but not necessarily in writing. - Filing a claim is a standard process that typically does not require written consent from the insurer. - Requesting a refund of premiums may not require written consent as it is a standard procedure governed by insurance regulations.