

# Washington Surplus Lines Broker Practice Exam (Sample)

## Study Guide



**Everything you need from our exam experts!**

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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

- 1. What may investment earnings help offset for insurers?**
  - A. Operational costs**
  - B. Underwriting losses**
  - C. Claim reserves**
  - D. Reinsurance costs**
- 2. Which of the following statements is FALSE regarding the requirement of a WA bond for a resident surplus lines broker?**
  - A. \$20,000 bond in favor of WA State**
  - B. A maximum of \$100,000 guarantee**
  - C. A bond in favor of the people of WA for a min of \$2,500**
  - D. A \$200,000 guarantee letter**
- 3. If the Commissioner believes a violation has occurred, what can be issued?**
  - A. A fine**
  - B. Cease and Desist order**
  - C. A warning letter**
  - D. Temporary suspension**
- 4. What is a Cession in the context of reinsurance?**
  - A. The total risk transferred to the reinsurer**
  - B. The unit of insurance passed to the reinsurer**
  - C. The reinsurance premium paid**
  - D. The maximum amount retained by the ceding company**
- 5. What does the Reserve Ratio provide an estimate of?**
  - A. The adequacy of current reserves**
  - B. The ratio of investment returns**
  - C. The liquidity status of the insurer**
  - D. The growth of policyholders' surpluses**

- 6. What is the typical range for the Estimated Current Reserve Deficiency to Policyholders Surplus Ratio?**
- A. Greater than 0% and less than 15%**
  - B. Less than 10%**
  - C. Less than 25%**
  - D. Greater than -5% and less than 20%**
- 7. How many days do you have to report to the Commissioner any Administrative action taken in another jurisdiction?**
- A. 60**
  - B. 30**
  - C. 15**
  - D. 7**
- 8. What information can you find on Schedule Y?**
- A. Summary of financial transactions**
  - B. Direct Premiums Written by state**
  - C. Organizational Chart of the insurance holding system**
  - D. Market Value assessment**
- 9. What happens if a certificate is not renewed by the specified date?**
- A. It remains active**
  - B. It expires**
  - C. It is automatically renewed**
  - D. It can be reactivated within 30 days**
- 10. If you receive an inquiry from the Insurance Commissioner, a timely response within how many days is required?**
- A. 5 business days**
  - B. 10 calendar days**
  - C. 15 business days**
  - D. 7 calendar days**



## **Answers**

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

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## **Explanations**

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## 1. What may investment earnings help offset for insurers?

- A. Operational costs
- B. Underwriting losses**
- C. Claim reserves
- D. Reinsurance costs

Investment earnings play a crucial role in the overall financial health of insurance companies, particularly in helping to offset underwriting losses. Underwriting losses occur when the premiums collected from policyholders are insufficient to cover the claims and expenses associated with providing insurance coverage. In such cases, investment earnings from the insurance company's investment portfolio can provide a necessary buffer. These earnings come from various sources, such as stock investments, bonds, real estate, or other financial instruments, which generate income over time. By utilizing these investment profits, insurers can compensate for periods when underwriting activities do not yield enough income to cover expenses and claims. This financial strategy allows insurers to continue operating efficiently, even when faced with adverse underwriting results. While investment earnings can also contribute to covering operational costs, claim reserves, and reinsurance costs in a broader financial sense, the primary function in the context of this question emphasizes their role in offsetting underwriting losses specifically. This is a critical aspect of how insurance companies manage their finances to maintain solvency and deliver on their policyholder commitments.

## 2. Which of the following statements is FALSE regarding the requirement of a WA bond for a resident surplus lines broker?

- A. \$20,000 bond in favor of WA State
- B. A maximum of \$100,000 guarantee
- C. A bond in favor of the people of WA for a min of \$2,500
- D. A \$200,000 guarantee letter**

In the context of the requirements for a Washington resident surplus lines broker, it is essential to understand the bond requirements set by the state. The statement about needing a \$200,000 guarantee letter is false because the requirement for a resident surplus lines broker in Washington is a \$20,000 bond in favor of the state, as specified by the legislation. The bond serves as a financial guarantee that the broker will comply with the laws and regulations governing surplus lines insurance in Washington. Additionally, there are provisions for various bonds and guarantees, including a minimum guarantee amount that may be referenced but does not extend to a \$200,000 guarantee letter, which is simply not part of the requirements. This highlights the state's emphasis on ensuring that brokers have a reliable financial backing, adequately protecting both consumers and the state itself without necessitating an excessively high guarantee.

**3. If the Commissioner believes a violation has occurred, what can be issued?**

**A. A fine**

**B. Cease and Desist order**

**C. A warning letter**

**D. Temporary suspension**

When the Commissioner believes that a violation has occurred, issuing a cease and desist order is a significant regulatory action. This order is a formal directive that instructs an individual or entity to immediately stop certain activities that are in violation of laws or regulations. The purpose of the cease and desist order is to prevent further illegal conduct and protect the public and the integrity of the insurance market. The legality and authority of the Commissioner to issue such orders are grounded in the need to maintain compliance with state insurance laws. This action provides a mechanism for quick intervention to halt potentially harmful practices, ensuring that the insurance environment remains fair and orderly. Other options, while relevant in different contexts, do not directly address the Commissioner's immediate authority when a violation is identified. A fine, for instance, is a penalty that may be imposed after an investigation or hearing but is not an immediate corrective action like a cease and desist order. A warning letter serves as a notification of potential violations but lacks the enforcement power of a cease and desist order. Similarly, a temporary suspension pertains to the licenses of individuals or entities and requires further proceedings, which is beyond the immediate actions available to the Commissioner upon discovering a violation.

**4. What is a Cession in the context of reinsurance?**

**A. The total risk transferred to the reinsurer**

**B. The unit of insurance passed to the reinsurer**

**C. The reinsurance premium paid**

**D. The maximum amount retained by the ceding company**

In the context of reinsurance, a cession specifically refers to the unit or portion of insurance that is transferred from the primary insurer (often called the ceding company) to the reinsurer. This transfer occurs to manage risk more effectively, allowing the ceding company to mitigate its exposure to large losses by sharing some of the risk with the reinsurer. When an insurance company decides to reinsure a portion of its policies, the specific risks associated with those policies are what constitute the cession. It is important to understand that this concept is distinct from the total risk being transferred or any financial aspects related to reinsurance premiums. Recognizing cession helps clarify how insurance companies can operate more safely and efficiently in the insurance market by distributing risk among various parties.

**5. What does the Reserve Ratio provide an estimate of?**

- A. The adequacy of current reserves**
- B. The ratio of investment returns**
- C. The liquidity status of the insurer**
- D. The growth of policyholders' surpluses**

The Reserve Ratio provides an estimate of the adequacy of current reserves that an insurer holds to meet future policyholder obligations. This ratio is a crucial measure in assessing whether the insurer has sufficient funds set aside to pay claims and fulfill other liabilities as they come due. A higher reserve ratio indicates a more adequate cushion against potential claims, suggesting that the insurer is in a better position to meet its responsibilities without financial strain. In contrast, the other options focus on different aspects of an insurer's financial health. For instance, the ratio of investment returns would relate to how effectively the insurer is managing its investment portfolio, but it does not directly give insights into reserve adequacy. Similarly, the liquidity status of the insurer involves assessing how quickly the insurer can convert assets to cash to cover immediate obligations, which is not the same as evaluating the reserves set aside for future claims. Finally, the growth of policyholders' surpluses pertains to overall profitability and the financial health of policyholder equity, rather than measuring the sufficiency of reserves specifically designated for claims.

**6. What is the typical range for the Estimated Current Reserve Deficiency to Policyholders Surplus Ratio?**

- A. Greater than 0% and less than 15%**
- B. Less than 10%**
- C. Less than 25%**
- D. Greater than -5% and less than 20%**

The Estimated Current Reserve Deficiency to Policyholders Surplus Ratio is an important metric in the insurance industry that helps assess the adequacy of an insurer's reserves. It indicates whether the reserves set aside for losses and claims are sufficient compared to the policyholders' surplus, which represents the insurer's net worth after liabilities. A correct answer indicates that the typical range for this ratio is less than 25%. This threshold is significant as it suggests a margin that allows for fluctuations in claims and unexpected losses while still maintaining financial stability. A ratio that exceeds this threshold could signal potential liquidity issues or insufficient reserves, both of which are red flags for the insurer's financial health and could potentially impact policyholders. The rationale behind the choice reflects the industry's threshold for risk management. Insurers typically aim to maintain a balance between their reserves and surplus to ensure they can meet obligations without overextending their financial resources. By keeping the ratio below 25%, insurers demonstrate a level of prudence and readiness to handle unforeseen claims, making policyholders feel more secure. The other choices provide lower thresholds, which could imply a more conservative stance but do not align with common practices in the industry regarding this specific ratio. Maintaining a lower threshold than 25% may not reflect the industry's broader

**7. How many days do you have to report to the Commissioner any Administrative action taken in another jurisdiction?**

**A. 60**

**B. 30**

**C. 15**

**D. 7**

The correct answer is based on the requirement set by the Washington State law regarding surplus lines brokers. In Washington, brokers are required to report any administrative action taken against them in another jurisdiction within 30 days. This requirement ensures that the Commissioner is informed of any significant regulatory issues that may affect the broker's ability to practice in Washington, maintaining transparency and the integrity of the regulatory environment within the state. The 30-day timeframe is consistent with the standards that help maintain accountability among brokers and ensure that they uphold the necessary ethical and professional standards expected in their conduct across jurisdictions. This regulation helps protect consumers and the insurance market by allowing authorities to act swiftly if there are concerns related to a broker's licensing or conduct based on actions taken in other states.

**8. What information can you find on Schedule Y?**

**A. Summary of financial transactions**

**B. Direct Premiums Written by state**

**C. Organizational Chart of the insurance holding system**

**D. Market Value assessment**

Schedule Y provides critical insights into the organizational structure of an insurance holding company system. This schedule outlines the relationships between various affiliates, subsidiaries, and other entities that compose the insurance group. By analyzing Schedule Y, one can understand how these organizations are related, their roles, and how they fit within the broader corporate structure. This information is vital for regulatory purposes and for investors or policyholders who need to assess the affiliations and potential conflicts of interest within the organization. While the other choices may pertain to different financial or operational aspects of insurance companies, they do not accurately describe the specific purpose of Schedule Y. For example, financial transactions and direct premiums written are typically detailed in financial statements and other reports, while market value assessments relate to asset valuations that might be found in different types of financial summaries.

**9. What happens if a certificate is not renewed by the specified date?**

- A. It remains active**
- B. It expires**
- C. It is automatically renewed**
- D. It can be reactivated within 30 days**

When a certificate is not renewed by the specified date, it expires. This means that the legal authority or validity that the certificate provided is no longer active, and the individual or entity must cease operations that require that certificate until it is renewed. Expiration often leads to a lapse in insurance coverage or the inability to perform certain activities legally until the necessary renewal procedures are completed. In many professional contexts, including licensing and insurance, the expiration of a certificate typically means that any protections or privileges granted by that certificate no longer apply. Therefore, a renewal process must be initiated to regain these benefits. This system ensures that only those who meet the current qualification standards are allowed to operate under that certification or license, contributing to maintaining safety and compliance within the industry.

**10. If you receive an inquiry from the Insurance Commissioner, a timely response within how many days is required?**

- A. 5 business days**
- B. 10 calendar days**
- C. 15 business days**
- D. 7 calendar days**

The correct response to an inquiry from the Insurance Commissioner is required within 15 business days. The requirement for a 15-business-day timeline underscores the importance of regulatory compliance and timely communication in the insurance industry. This timeframe allows brokers adequate time to investigate the inquiry and provide a well-considered response, thereby facilitating effective oversight by the regulatory authority. This period emphasizes the need for insurance professionals to maintain organized records and processes to ensure they can respond efficiently to inquiries from regulators. By adhering to this requirement, a broker demonstrates professionalism and compliance with the legal standards set forth by the insurance regulation framework. Timely responses also contribute to a smoother regulatory relationship and support the integrity of the insurance market.



## 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](mailto:hello@examzify.com).**

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

**<https://washingtonsurpluslinesbroker.examzify.com>**

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