

EXAM 6 – CANADA, FALL 2013

9. (1.5 points)

a. (0.75 point)

Identify three main areas on which Canadian insurance regulation is focused.

b. (0.75 point)

Identify three duties of the audit committee.

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- B. The number of exposures affected, the impact of the discount on premium. The written premium for the groups receiving and not receiving the discount.
- C. The methodology used for risk classification for territories e.g. GLM and the results. The written / earned premium for each territory. The overall and individual impacts of the risk classification changes.

Examiner's report:

This is a very important question for any candidate practicing in Canada. The candidates need to know what is legal for auto insurance in Ontario.

For part A. it is important they understand what is allowable for quoting practices, as well as pricing. We also wanted the candidates to mention that income is considered part of the definition of credit information, for full marks.

For part B. there are many possible answers, and many outside the key were acceptable. The question did specify that the answers should be specific to the particular change discussed, not just filings in general.

Question 9

Answer key:

- a. Solvency, Canadianization, creation of tax revenues (need to specify **tax** revenues), promote market integrity / improve contract form, promote intermediary honesty / competence.

Also allow "protection of the insured / consumer".

- b. audit committee
 - i. review the annual statement
 - ii. review such returns of the company the superintendent may specify
 - iii. require management to implement and maintain appropriate internal control procedures
 - iv. review such investments and transactions that could adversely affect the well-being of the company...
 - v. meet with the auditor
 - vi. meet with the actuary
 - vii. meet with the chief internal auditor of the company

Actual candidate answer for full marks:

- a.
 1. Regulation regarding solvency of the insurer
 2. Creating tax revenue
 3. Promoting ownership of Canadian insures and local investment
- b.
 1. Meet with actuary to discuss portion of annual report that relates to valuing policy liabilities
 2. Review the annual report before its presented to the directors
 3. Meet with auditor to discuss the fairness of the report

Examiner's report:

Foundational question which has been asked numerous times in the past. There are many possible answers out of which only 3 (each for A and B) were required. We did not require long answers for full marks.

Question 10

Answer key:

- a.
 - 1. 1930-1970 – several states used race as a life insurance rating factor – even today it is a mathematical fact that life expectancy differs for Caucasian by 5 years. Sound technically but “counter to equal protection for consumers” “not sound public policy”.
 - 2. HIPAA outlaw of the practice of using DNA testing for health insurance.
- b. Recent divorces, recently naturalized citizens, elderly, disabled, religious sects, young, poor, ethnic groups (or race or minorities), don’t use credit often.
- c. Credit report errors, identity theft, proliferation of access to credit

Also allow: opaque to consumers, varies by company, impacted by decision unrelated to insurance risks (such as financing decisions), downturn in Economy.

Actual candidate answer for full marks:

- a.
 - 1. Use of race in life insurance
 - 2. Use of medical / genetical records in life insurance
- b.
 - 1. Elderly
 - 2. Newly naturalized
 - 3. People with religious belief against credit
- c.
 - 1. Quality of data (a research shows that as many as 50% credit profile contained inaccurate information)
 - 2. Economic downturn (will usually decrease average credit score – if insurer doesn’t off-balance the change will result in a premium increase for insured. This may be true when the economic downturn is sudden and insurer doesn’t have time to react).
 - 3. Life changing event (people undergoing life changing even such as Identity Theft may be unfairly impacted).

Examiner’s report:

Part A provides an important historical context for the McCarty paper.

For B, there were many possible answers which are fairly intuitive for candidates to remember. Most candidates got complete marks.

For C. there were again many possible answers accepted.