

EXAM 6 – CANADA, FALL 2013

11. (2 points)

The Property and Casualty Insurance Compensation Corporation (PACICC) was established to protect policyholders and claimants in the event of an insurer insolvency.

a. (1 point)

In the event of an insolvency and assuming no payment has been made by the insolvent insurer, calculate the amount of recovery to which each of the following policies is entitled from PACICC with respect to claims:

- i. (0.25 point) An auto policy in Manitoba has a collision deductible of \$500. The policy incurred a collision ground-up loss of \$20,000.
- ii. (0.5 point) An auto policy in Ontario has a collision deductible of \$500 and a third party liability limit of \$1,000,000. The policy incurred a collision ground-up loss of \$30,000 and a third party liability ground-up loss of \$300,000. These two losses were from separate accidents.
- iii. (0.25 point) A personal property policy in Alberta has a deductible of \$1,000 and a limit of \$1,000,000. It incurred a ground-up loss of \$300,000.

b. (0.5 point)

In the event of an insolvency in the fall of 2013, calculate the amount of recovery to which each of the following policies, both issued in summer of 2013, is entitled from PACICC with respect to unearned premium:

- i. (0.25 point) A fidelity policy in Alberta with an unearned premium of \$300 as of the date of insolvency.
- ii. (0.25 point) An auto policy in Alberta with an unearned premium of \$1,500 as of the date of insolvency.

c. (0.5 point)

Briefly describe the two conditions that must be met before PACICC has financial responsibility in connection with an insurer's insolvency.

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Question 11

Answer key:

A)

i) 0. Auto policies in MB is not subject to PACICC

ii) Because there are two separate loss occurrences, the loss amounts are not aggregated together and thus the PACICC limit of 250,000 is applied separately to each claim.

Total Recovery = $\min(250,000, 30,000 - 500) + \min(250,000, 300,000) = 279,500$

iii) Maximum recovery for Personal Property policy is \$300,000.

Total Recovery = $\min(300,000, 300,000 - 1000) = 299,000$.

B)

Note the effective dates are needed because prior to 1996, PACICC does not cover unearned premium.

1) 0. Fidelity policies are not covered under PACICC.

2) After 1996, PACICC will pay 70% of a maximum unearned premium of \$1000.

Total recovery = $\min(700, 1500 * 0.7) = 700$.

C)

i) Formal winding up order under the Federal Winding up and Restructuring Act

ii) Insurer must be a member of PACICC

Actual candidate answer for full marks:

a)

i. Since the auto insurance is provided by the government it is not a responsibility of PACICC.

Recovery = \$0

ii. Recovery = $(30000 - 500) + 250000 = \$279,500$

iii. Personal property limit = 300k So recovery = $300,000 - 1,000 = \$299,000$

b)

i. Fidelity is not covered as a line of business by PACICC

ii. $\text{Max}(0.7 * 1500, 0.7 * 1000) = \700 recovered

c)

▪ Insurer must write a line of business that is covered under PACICC policies, so that is a member of PACICC

▪ Insurer must receive a windup order from OSFI/superintendent

Examiner's report:

The calculation parts in a and b were generally well answered, however many candidates did not know the exceptions for Manitoba and fidelity so points were lost here. For part c, knowledge about PACICC and the requirements for responsibilities during insolvency were not typically well understood by candidates.