

**EXAM 6 – CANADA, FALL 2013**

15. (2 points)

a. (1 point)

Briefly describe the four criteria that must be met for a terrorism event to be certified under current Terrorism Risk Insurance Act (TRIA) rules.

b. (0.5 point)

Identify two ways the private market could replace TRIA.

c. (0.5 point)

Describe two arguments to support the position that TRIA is not insurance.

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- Eliminate the issue of determining what exactly caused water damage (sewer back-up vs. flooding) to determine if coverage exists
- b)
- Rates – Should be based on risk level and actuarially sound (may allow minimal subsidization to maintain affordability)
  - Deductibles – Should be higher for high risk individuals to encourage risk mitigation and make insurer more willing to accept risk
  - Bundled – Should be bundled and not optional to increase market penetration and reduce adverse selection which could threaten economic viability of program
  - Exclusions – Should excluded highest risk individuals to avoid affordability issues
- c)
- i. Since flood damage is covered, may do less to mitigate damages and may even move unwanted items to basement to get damaged and receive more compensation.
  - ii. With citizens having flood insurance, may see less incentive to prevent building in risk areas

**Examiner's report:**

Given the focus on flood coverage in the Canadian market in recent years candidates were well prepared and often had good answer for why it would be beneficial and ideas on how to design a plan. For part c) many candidates who lost points seemed to have trouble understanding the meaning of moral hazard.

## Question 15

**Answer key:**

- a)
- Insured property and casualty losses must exceed \$100 Million
  - Event must be dangerous to human life, property or infrastructure
  - Damage must occur inside the United States, or if outside the United States at the premises of a United States mission or to certain US flagged vessels and air carries
  - Event must be committed by an individual or individuals as part of an effort coerce the civilian population of the United States or influence the policy or conduct of the United States government (Note do not give points if candidate states foreign individual without also stating that domestic is included)
- b)
- Capital market financing (Catastrophe bonds)
  - Risk pools
  - Reinsurance
- c)
- Insurers do not pay premiums prior to incurring losses
  - Government may recoup some of the losses that it pays, but otherwise, insurers are simply reimbursed for a portion of their costs
  - Offered to any insurer universally rather than through a risk selective process

**Actual candidate answer for full marks:**

- a)
- Damages from the event must exceed \$100 million
  - Must present a danger to human life, property or infrastructure

- Must occur in the USA, or if outside of the USA at a US mission or on a US flagged vessel or air carrier
  - Performed via an effort to coerce the US civilian population or influence the conduct and policies of the US government (can be either domestic or foreign)
- b)
- Through catastrophe bond market
  - Use of private reinsurance market
- c)
- Insurers do not pay premiums until a loss occurs
  - Coverage is provided to everybody and is heavily subsidized by general tax revenue

**Examiner's report:**

Given that this question covered a US program some candidates did not seem to have fully detailed knowledge of how to answer. Also many people who lost marks did not answer with current criteria, but instead the rules when originally implemented.

## Question 16

**Answer key:**

- a)
1. Disability benefits that are at least equal to the EI sickness benefits
  2. Payment of benefits starting on or before the 15<sup>th</sup> day of disability
  3. In the case of weekly indemnity plans, payment of benefits for at least 15 weeks for each disability occurrence
  4. Payment of benefits with no reduction for EI benefits received during the same period
  5. In the case of weekly indemnity plans, reinstatement of full disability coverage after a disability within one month of return to work for future disabilities and within three months of return to work for recurrence of initial disability cause.
- b)
1. A written mutual agreement on how the savings will be returned to the employees
  2. A cash rebate equal to 5/12 of the savings divided amongst the employees, which is treated as employment income subject to source deductions
  3. Providing new or increased benefits, including upgrading existing benefits, or providing more holidays or time off work
- c)
1. Claimant who refuses or fails to apply for suitable employment without good cause
  2. Claimant who leave jobs voluntarily without just cause
  3. Claimant who lose jobs due to misconduct
  4. Claimant who fails to take a training course designated by the CEIC, without good cause
  5. Claimant who are out of work because of a strike or lockout

**Actual candidate answer for full marks:**

- a)
- Must not be reduced for EI payments
  - Disability benefit must be at least as high as EI benefits