

**EXAM 6 – CANADA, SPRING 2014**

9. (1.25 points)

In a given jurisdiction, auto insurance pricing is regulated. The government recently mandated a rate freeze on a particular class of risks, which made them rate inadequate. There is no “take-all-comers” rule in this particular jurisdiction.

a. (0.25 point)

Describe how the rate freeze will impact the availability of insurance for this class of risks.

b. (1 point)

Propose and fully describe a solution for this jurisdiction to address the issues in part a. above without imposing a “take-all-comers” rule.

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## SAMPLE ANSWERS AND EXAMINER'S REPORT

<b>QUESTION 09</b>	
<b>TOTAL POINT VALUE: 1.25</b>	<b>LEARNING OBJECTIVE: B1-B3</b>
<b>SAMPLE ANSWERS</b>	
<b>Part a: 0.25 point(s)</b>	
<p><b>Sample 1:</b> <i>Availability for this class will be reduced due to the fact that insurer that think of the risks have inadequate premium (too risky) will refuse them.</i></p> <p><b>Sample 2:</b> <i>Insurers will start rejecting applications to insureds that would have inadequate premiums, resulting in an availability crisis.</i></p>	
<b>Part b: 1 point(s)</b>	
<p><b>Sample 1:</b> <i>They should introduce a risk sharing pool that allow to cede risk that insurer find that they are underpricing for. Result of the pool would be distributed between all insurers in that jurisdiction in function of their voluntary business in auto. This will increase the availability of that class of risk.</i></p> <p><b>Sample 2:</b> <i>Create a broker pool that works to place high-risk insureds, similar to how high risk properties are placed in Newfoundland. If an insured is denied a policy, the brokers would work together to find an insurer that would accept that driver since not all insurers would have equally inadequate rates across all segments of the population, so it is likely that at least one insurer will accept the risk</i></p> <p><b>Sample 3:</b> <i>There should be a risk sharing pool were insurers could transfer risks they consider inadequate. Cost of the program will be pooled among participating insurers based on participation ratio. There should be no limitation to risk transfer or else we will face another availability problem. If there is a limitation we should also have a residual market in place.</i></p> <p><b>Sample 4:</b> <i>The government could set up a facility association, as an insurer of last resort. They could select a servicing company to handle claims. Any net loss would be charged out to the industry based on share of the voluntary market.</i></p>	

## SAMPLE ANSWERS AND EXAMINER'S REPORT

EXAMINER'S REPORT
<b>Part a</b>
Candidates did extremely well on part a. Most candidates were awarded full credit. Any mention of reducing availability was given full credit.
<b>Part b</b>
The majority of candidates did well on part b. The most common error was for the candidate to propose removing the "Rate Freeze" or switching to competitive rating. The question clearly states that there is a rate freeze in effect. The candidates were asked to propose a solution to address the availability concerns within this market without changing the scenario described by the question.