

EXAM 6 – CANADA, SPRING 2014

32. (1.5 points)

Given the information provided below:

Distribution by Line of Business and Geography					
Year-ended December 31, 2011					
Line of Business	Gross Written Premium (\$000s)				
	Ontario	Nova Scotia	Alberta	British Columbia	Total
Automobile	\$120,000	\$23,000	\$50,000	\$0	\$193,000
Personal Property	\$32,000	\$12,000	\$21,000	\$70,000	\$135,000
Commercial Property	\$18,000	\$0	\$25,000	\$85,000	\$128,000
Total	\$170,000	\$35,000	\$96,000	\$155,000	\$456,000
Year-ended December 31, 2012					
Line of Business	Gross Written Premium (\$000s)				
	Ontario	Nova Scotia	Alberta	British Columbia	Total
Automobile	\$150,000	\$24,000	\$52,000	\$0	\$226,000
Personal Property	\$33,000	\$12,000	\$22,000	\$72,000	\$139,000
Commercial Property	\$19,000	\$0	\$26,000	\$88,000	\$133,000
Total	\$202,000	\$36,000	\$100,000	\$160,000	\$498,000

a. (0.75 point)

Identify three considerations in determining the concentration risk of an insurance company.

b. (0.75 point)

Based on the information provided above, briefly state three key points that should be included in the disclosure of concentration risk in the insurer's financial statements. Assume that the company's rate levels in 2012 were the same as in 2011.

CONTINUED ON NEXT PAGE

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 32	
TOTAL POINT VALUE: 1.5	LEARNING OBJECTIVE: C2
SAMPLE ANSWERS	
Part a: 0.75 point(s)	
<p>Sample 1:</p> <ol style="list-style-type: none"> 1. <i>Diversification</i> 2. <i>Underwriting Limit</i> 3. <i>Reinsurance</i> <p>Sample 2:</p> <ul style="list-style-type: none"> • <i>Concentration by Line of Business</i> • <i>Concentration by geography</i> 	
Part b: 0.75 point(s)	
<p><i>Most of the automobile business (150/226=66%) is written in Ontario</i> <i>Property (Personal and Commercial) in BC represents 160/498=32% of total premium</i> <i>150/120-1=25% automobile business in Ontario has grown at 25% in the last year</i></p>	
EXAMINER'S REPORT	
Part a	
<ul style="list-style-type: none"> • Candidate was expected to know concentration risk from CIA Disclosure • 	
Part b	
<ul style="list-style-type: none"> • Candidate was expected to interpret given GWP by LOB and Region and identify any concentration risks. • Most candidates were able to identify rapid growth in Ontario Auto, but fewer were able to identify BC Property concentration risk 	