

EXAM 6 – CANADA, FALL 2014

1. (3 points)

a. (1 point)

Identify whether the federal regulator, the provincial/state regulator, or both levels of government oversee each of the following roles:

- i. Solvency regulation in Canada
- ii. Solvency regulation in the U.S.
- iii. Rate regulation in Canada
- iv. Rate regulation in the U.S.

b. (0.75 point)

A number of insurance company insolvencies in the 1980s sparked an interest in federal regulation in the U.S. Identify three actions taken by the National Association of Insurance Commissioners that reduced the pressure to introduce federal regulation.

c. (0.5 point)

In 1999, the U.S. Congress passed the Gramm-Leach-Bliley Financial Modernization Act. Describe the position of the Act with respect to insurance regulation.

d. (0.75 point)

Identify and describe one of the two U.S. laws that have been introduced after Gramm-Leach-Bliley that have caused federal encroachment into state regulation.

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QUESTION: 1

TOTAL POINT VALUE: 3

LEARNING OBJECTIVE(S): A1

SAMPLE/ACCEPTED ANSWERS:

Part a: 1 point

- i) Both
- ii) State (NOTE: "Both" was also accepted here if the candidate explained that the Federal Reserve system can supervise insurers that are deemed to pose a systematic risk.)
- iii) Federal
- iv) State

Part b: 0.75 point

- risk-based capital requirements,
- financial regulation accreditation standards
- An initiative to codify accounting principles.

Part c: 0.5 point

- The act concludes that states should regulate the insurance industry.
- The act set out certain minimum standards that state insurance laws and regulations were required to meet or face preemption by federal law.
- The act enabled other financial institutions (e.g., banks) to promote and sell insurance
- The act broke down restrictions against bank / holding company affiliation with insurers

Part d: 0.75 point

Either one of the following laws

Patient Protection and Affordable Care Act (PPACA)

- Health benefit plans to be marketed through federally-mandated state-created insurance exchanges. Federally mandated distribution.
- Mandated coverage requirements (prohibiting pre-existing condition exclusions in certain instances and restricting limits on the dollar value of health benefit plans)
- Requires that health insurers maintain specific medical-loss ratios as set by federal law.

Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank")

- Establishes the Federal Insurance Office (FIO). FIO is charged with studying and collecting information on the insurance industry and the state insurance regulatory system, and drafting a federal insurance regulatory framework.

EXAM 6C FALL 2014 SAMPLE ANSWERS AND EXAMINER'S REPORT

- Established Financial Stability Oversight Council (FSOC). FSOC is authorized to require a state regulator to apply heightened financial standards on insurance companies. FSOC may declare that an insurance company poses a systematic risk and require supervision by the US Federal Reserve System.
- Requires single-state regulation of surplus lines insurance placement and requires all states to apply uniform eligibility criteria for surplus lines insurers;
- Mandates certain requirements for reinsurance credits and generally preempts non-domiciliary state laws to insurers with respect to certain reinsurance issues.

EXAMINER'S REPORT:

General Commentary

Overall, this question was answered fairly well despite the non-core nature of the material (US regulation).

Part a

This part was answered correctly by most candidates. A common mistake was answering that only the federal government is responsible for solvency regulation in Canada.

Part b

This was a fairly difficult question as it referenced actions that were taken in a specific time period (the 1980s). Common mistakes were to describe actions that took place at other times – such as unified contracts and policy forms, model legislation for states to adopt.

Part c

-The phrase “with respect to insurance regulation” could have several different interpretations; therefore, a variety of answers were accepted. Candidates who mentioned breaking down barriers between banks and insurance companies received full credit if they explained how this change impacted the regulatory environment. The most common cause of lost points was partial or insufficiently detailed explanations.

Part d

Candidates who mentioned the FIO and the FSOC in relation to Dodd-Frank received full credit if they either identified the full name of the organizations or explained their function. Some candidates made factual errors in their description of the Dodd-Frank legislation.