

**EXAM 6 – CANADA, FALL 2014**

11. (1 point)

a. (0.5 point)

Explain why it is difficult to measure the full costs of an involuntary exit of an insurance company.

b. (0.5 point)

An insured has an automobile policy with a company that has become insolvent.

Given the following:

Policy effective date	July 1, 2013
Policy premium	\$2,500
Deductible	\$1,000
Policyholder outstanding claim	\$275,000
Insolvency date	December 1, 2013

Calculate the amount paid to this policyholder by the Property and Casualty Insurance Compensation Corporation (PACICC).

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

### QUESTION: 11

TOTAL POINT VALUE: 1

LEARNING OBJECTIVE(S): B2

SAMPLE/ACCEPTED ANSWERS:

Part a: 0.5 point

*Sample 1*

- Not all costs can be accounted for right away
- Policyholders may have claims still being paid
- Third parties may have payments due or company is receiving
- Liquidating assets can lead to fire sales which can significantly reduce the asset price
- PACICC may use compensation fund until all costs are known
- There are insolvency costs that are difficult to determine right away

*Sample 2*

Some costs, such as lost wages, taxes, and expenses incurred by insurers winding up are difficult to evaluate. The economic impact is difficult to assess too.

*Sample 3*

There are many costs associated with it, unearned premium and unpaid claims are easy to evaluate, but not the cost of lost jobs, salary, pension. Neither are the costs of accountants, judicial intervention involved in liquidation.

Part b: 0.5 point

5 months earned premium

7 months unearned premium

$$\text{Unearned Premium} = 2,500 \times \left(\frac{7}{12}\right) \times 0.7 = 1,020$$

Maximum payable for unearned premium = 700

$$\text{Min}(700, \text{Unearned Premium}) = \text{Min}(700, 1020) = 700$$

Outstanding claim = 275,000

Maximum payable for claim = 250,000

$$\text{Min}(250000, 275000 - 1000) = 250,000$$

$$\text{Total amount paid} = 250,000 + 700 = 250,700$$

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

### EXAMINER'S REPORT:

#### General Commentary

In general, candidates responded well on this question.

#### Part a

Candidates responded well on this part.

Many potential responses were accepted as difficult costs to estimate of an involuntary exit. As long as they were reasonable they were acceptable and did not need to be found directly in the syllabus.

Some candidates used claim costs or unearned premium, but these were not accepted as those costs can be calculated as shown in part b of this question.

#### Part b

Candidates responded well on this part.

Examples of common errors were:

- Applying the deductible after applying the maximum claim payment
- Calculating the unearned premium using either 5 or 6 months remaining in the policy term
- Failing to apply the cap on unearned premium