

**EXAM 6 – CANADA, FALL 2015**

6. (2 points)

In order for a risk to be insurable:

- i. It should have a sufficiently large number of insureds to make losses reasonably predictable.
- ii. Losses must be definite and measurable.
- iii. Losses must be fortuitous or accidental.
- iv. Losses must not be catastrophic (unlikely to affect a large number of insureds at the same time).

a. (1 point)

Using each of the above criteria, discuss the insurability of Terrorism risk.

b. (1 point)

Using each of the above criteria, discuss the insurability of Flood risk.

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**EXAM 6-CANADA SAMPLE ANSWERS AND EXAMINER'S REPORT**

<b>QUESTION 6</b>	
<b>TOTAL POINT VALUE: 2</b>	<b>LEARNING OBJECTIVE: B3</b>
<b>SAMPLE ANSWERS</b>	
<b>Part a: 1 point</b>	
Sample #1	
<ul style="list-style-type: none"> <li>i) Yes this is met as most commercial entities are exposed to terrorism risk and many are required to purchase insurance due to regulations or loan requirements.</li> <li>ii) Likely not as we do not have a credible history of data to predict losses with much accuracy; will have to use models with expert views.</li> <li>iii) No as terrorism is a deliberate act, although not by insured.</li> <li>iv) Depends on aggregation by geography, but likely to be catastrophic.</li> </ul>	
Sample #2	
<ul style="list-style-type: none"> <li>i) Difficult to achieve large enough risk pool since coverage not mandatory or too expensive.</li> <li>ii) Assess ability of losses difficult since lack of historical experience. Low frequency / high severity.</li> <li>iii) Terrorist events are not random as they are intentional acts. Difficult to insure given lack of fortuitousness.</li> <li>iv) Fails criteria: Likely a terrorist event would have catastrophic losses (eg. 9/11)</li> </ul>	
Sample #3	
<ul style="list-style-type: none"> <li>i) It is not a mandatory coverage and only available with commercial property or property and casualty policies, # of insureds are not sufficient.</li> <li>ii) It is not definite and measureable as the amount of exposure is not easy to compute and historical data is lacking which makes the risk hard to measure.</li> <li>iii) It is not fortuitous and accidental since it is caused by man's act.</li> <li>iv) Underwriting policy can make the risk not catastrophic. Insurer usually diversify their risk by geographical ranges.</li> </ul>	
<b>Part b: 1 point</b>	
Sample #1	
<ul style="list-style-type: none"> <li>i) No as not many people in flood-prone areas, and hence unlikely to buy insurance specifically for flood.</li> <li>ii) Given lack of historical industry data, not easy to quantify potential losses.</li> <li>iii) Yes flood losses are fortuitous, however if insured is in flood prone areas, one can argue it is to be expected to have flood and hence not fortuitous.</li> <li>iv) Depends on aggregation of risk by geography, but likely catastrophic as large number of homes in area to be impacted.</li> </ul>	
Sample #2	
<ul style="list-style-type: none"> <li>i) Can have large enough pool if flood coverage is bundled with other perils in policy. ii) Flood models along with flood maps and property exposure details could be used to estimate losses.</li> <li>iii) Floods are fortuitous as caused by random weather events not in control of insureds.</li> <li>iv) Flood coverage can be offered in low/med risk zones but should be excluded from the extreme high-risk zones to deter development in those areas.</li> </ul>	
Sample #3	

## EXAM 6-CANADA SAMPLE ANSWERS AND EXAMINER'S REPORT

i)	It is sufficiently large # of insureds only by bundling up the flood risk into all home insurance policies.
ii)	It can be definite and measured by using historical events and events from other parts or regions of the world.
iii)	It is fortuitous as it is an event by nature.
iv)	It is catastrophic as event happens usually it is localized at one area.
<b>EXAMINER'S REPORT</b>	
The candidates were expected to demonstrate an understanding of two different risks and how they relate to four ideal characteristics for a risk to be insurable. A wide array of possible answers were accepted for this question. The question required the candidate to state whether or not each condition was met and discuss why. Candidates performed well on this question.	
<b>Part a</b>	
<ul style="list-style-type: none"><li>• Candidates who did not receive full credit commonly did not discuss why the condition was satisfied or not, they simply replied with a "Yes" or "No" answer, which no credits are given.</li><li>• A few candidates simply restated the question. For example, "Yes, losses can be measured" or "Yes, losses are random"</li></ul>	
<b>Part b</b>	
<ul style="list-style-type: none"><li>• The same common errors from part a were made again in part b.</li></ul>	