

EXAM 6 – CANADA, FALL 2015

8. (1.75 points)

a. (0.25 point)

Briefly describe the purpose of establishing the Property and Casualty Insurance Compensation Corporation (PACICC).

b. (0.5 point)

Briefly describe the key difference with regard to the treatment of dividends when comparing PACICC with other guarantee funds in the United States or the United Kingdom.

c. (1 point)

Briefly describe four company-specific characteristics that play a role in most insurer insolvencies.

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EXAM 6-CANADA SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 8	
TOTAL POINT VALUE: 1.75	LEARNING OBJECTIVE: B1, B2
SAMPLE ANSWERS	
Part a: 0.25 point	
PACICC was established to protect policyholders from undue financial loss in the event that a member insurance company exited the market involuntarily.	
Part b: 0.5 point	
In the United States and the United Kingdom, dividends from liquidated estates are used to reduce current or future assessment needs.	
In comparison, PACICC is required to return liquidation dividends to the solvent members of the industry.	
Part c: 1 point(s)	
<ul style="list-style-type: none"> • Governance and internal controls: management and governance issues lead to decisions or failed processes that caused companies to fail. OR Inadequate pricing, deficient reserving (assuming it's due to failed processes or failure of internal controls) OR Lack of underwriting / prudent risk selection • New entrants: new entrants face strong competition from companies already entrenched in the market and have inexperienced management teams. • Rapid growth: for an insurance company, rapid growth is usually accompanied by deteriorating loss reserves. The incentive to embark on long-term, aggressive expansion strategies tends to increase during periods associated with diminishing capital strength. Companies may also enter new areas of business where they lack expertise. • Firm size: larger companies are less sensitive to financial distress than smaller insurers. 	
EXAMINER'S REPORT	
Part a	
Candidates were expected to know the reasons for PACICC establishment. Almost all candidates received full credit.	
Part b	
Not many candidates received full credit. A lot of candidates confused stockholder dividends with the dividends returned by PACICC to member companies.	
Part c	
Candidates were expected to know most company-specific characteristics of an insolvent insurer. Most candidates were able to provide enough answers to get full or almost full credit. Some confusion arose from describing company-specific characteristics and external characteristics but overall this was well answered.	