

EXAM 6 – CANADA, FALL 2015

9. (3 points)

a. (0.75 point)

Briefly describe the three goals of Terrorism Risk Insurance Act (TRIA).

b. (1.5 points)

Argue whether or not the 2007 version of TRIA has achieved the goals in part a. above.

c. (0.75 point)

Briefly describe three criteria necessary for a company to receive payment from the federal government under the TRIA program.

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EXAM 6-CANADA SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 9	
TOTAL POINT VALUE: 3	LEARNING OBJECTIVE: B1, B2
SAMPLE ANSWERS	
Part a: 0.75 point	
<ul style="list-style-type: none"> • Sample Response #1 <ol style="list-style-type: none"> 1. Provide a temporary federal insurance program for terrorism risk to let the market stabilize 2. Protect the customers – ensure availability and affordability of terrorism insurance 3. Preserve state regulation of insurance <ul style="list-style-type: none"> • Sample Response #2 <p>-build a program that shares between public and private – so that the market can stabilize and still be able do business</p> <p>-make sure that TRIA is affordable and available</p> <p>-so state regulation does not need to change and can operate as usual</p>	
Part b: 1.5 points	
<ul style="list-style-type: none"> • Sample Response #1 <ol style="list-style-type: none"> 1. Temporary federal program – No, as the market was not stable enough at that time with not high enough take-up rate or not enough credible data 2. Protect the customers – Yes, terrorism insurance is available for all commercial policyholders with affordable price with federal reinsurance support 3. State regulation – Yes, the act did not interfere with the state regulation power with the exception of the definition of terrorism act or any terrorism state regulation <ul style="list-style-type: none"> • Sample Response #2 <ol style="list-style-type: none"> 1. Temporary federal program – No, it was supposed to be a 3-year program in 2003, so if the 2007 program is still in place (in 2014) then private insurers still need help, they are not ready to insure the whole risk 2. Protect policyholders – Yes, initially prices were relatively high, but have decreased over time and a large proportion of insureds are buying coverage 3. State regulation – Yes, expect for the 2 following exceptions: <ul style="list-style-type: none"> ○ Federal government decides on certified act of terrorism ○ Rate and form approval laws were preempted from enactment to the end of 2003 <ul style="list-style-type: none"> • Sample Response #3 <ol style="list-style-type: none"> 1. Temporary federal program – Yes, government helps insurers to pay for terrorism loss by reinsuring the company. Markets have stabilized and more insurers offer the coverage now. 2. Protect Consumers – Yes, by providing it, more insurers are making terrorism insurance available and premiums have decreased. Insureds with the coverage have increased. 3. State regulation – Yes, state has the authority and can regulate terrorism insurance. State regulation is not controlled by the federal government. 	

EXAM 6-CANADA SAMPLE ANSWERS AND EXAMINER'S REPORT

Part c: 0.75 point

- Sample Response #1

1. The act must be certified as terrorism act jointly by the treasury department, secretary of state, and the attorney general
2. The act must exceed \$100 million for the federal fund to start
3. Each insurer has a deductible equal to 20% of its corresponding direct earned premium before they start receiving the payment from the federal government

- Sample Response #2

- loss on US soil or against US vessels
- aggregate losses must exceed \$100 million
- terrorist event must be certified by the secretary of state and the attorney general

- Sample Response #3

- Aggregated insured losses from the certified act must exceed \$100 million
- Act must be certified jointly by the secretary of state, secretary of the treasury, and attorney general (loss > \$5 million in US or to US carriers or sea vessel)
- must be commercial property & casualty coverage and not a coverage that is excluded by statute (eg. Crop insurance, title insurance)

EXAMINER'S REPORT

Candidates scored well on this question and a few candidates received full credit. For candidates who did not receive full credit, this was most commonly due to not providing a fulsome explanation in part b) as to whether the goals of TRIA have been met.

Part a

Most candidates received full credit on this part

The most common errors were:

- Providing a lists of reasons why governments get involved in insurance, whereas this part asked for the specific goals of TRIA and not why the government decided to go about creating TRIA
- Of the 3 goals, the most commonly missed goal was preserving state regulation of insurance

Part b

Most candidates did not receive full credit on this part.

Many candidates received partial credit for explaining portions of the goals that were listed in a) but did not provide complete arguments to receive full credit. For any of the 3 goals of TRIA, credit was given to arguments either for or against whether the goal was achieved as long as enough explanation was provided.

The most common errors were:

- Not justifying or arguing whether the goals were achieved
- Justifying one or two of the goals, but not all three goals

EXAM 6-CANADA SAMPLE ANSWERS AND EXAMINER'S REPORT

Part c

Half of the candidates received full credit on this part.

Many candidates incorrectly interpreted the \$5 million certification condition as applicable to a specific company whereas it is actually in a broader condition of where insured losses must occur for the act to be certified as an act of terrorism.

The most common errors were:

- Stating that insured losses must exceed \$5 million, either for the specific company or in general
 - I. The \$5 million condition of TRIA is that losses must exceed \$5 million in the United States or to U.S. air carriers or sea vessels for an act of terrorism to be certified
- Several candidates provided 2 conditions and not a third
- Stating that aggregate insured losses must be greater than \$100 billion