9. (2.25 points)

   a. (0.75 point)

      Briefly describe the origin, role and goal of the Facility Association.

   b. (0.5 point)

      Identify two risk-sharing mechanisms used by the Facility Association.

   c. (1.0 point)

      Compare and contrast the two mechanisms described above with respect to:

      i. Risk insured
      ii. Underwriting and pricing of risk insured

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QUESTION 9	
TOTAL POINT VALUE: 2.25	**LEARNING OBJECTIVE: B1, B2**

SAMPLE ANSWERS

Part a: 0.75 point

- Sample Answer #1

Facility Association – Created by insurance industry as non-profit entity to provide insurance in involuntary market, create reinsurance mechanism in voluntary market.

- Creates rating for FA risk and administers things such as participation rules, transfer limits
- Since auto insurance mandatory, FA created to provide insurance to those unable in private sector to ensure all are able to get insurance
- Creates sharing mechanism for higher risk insureds

- Sample Answer #2

Developed to ensure availability of compulsory auto insurance across Canada. It's role is to provide a residual market for auto insurance and try to have as small a market share as possible. It's goal is to ensure availability of auto insurance.

Part b: 0.5 point

Residual Market
Risk Sharing Pools

Part c: 1.0 point

- Sample Answer #1

FARM
Risks Insured – those unable to obtain insurance in voluntary market for PPV

- Limited to commercial vehicles and private passenger auto

Underwriting and pricing – based on FA rates

- Must have been refused coverage by insurer authorized to do so

RSP
Risks Insured – high risk policies insured by private insurer and ceded to RSP

- Only private passenger vehicles not qualified for FARM

Underwriting and pricing – Must have minimum statutory limits and be underwritten and priced appropriately (in accordance with approved rates)

- Underwritten and priced by insurer using own rates and underwriting policies.

- Sample Answer #2

The risks insured by FARM are residual risks that won't be accepted by traditional insurers. In RSP, risks have been accepted by insurers. RSP is a pool of the worse risk of the insurance companies, but all of the risks have still been accepted by those companies (as opposed to FARM) With FARM, the insured knows he is using facility association since he (or his broker) has to contact FA. The price of his insurance contract is determined by FA. For RSP, the insured doesn't know he is ceded to the pool. The insurer will apply the same U/W guidelines as usual and the same pricing algorithm.

EXAMINER'S REPORT

Part a

- Candidates did well on this part.

• Candidates were expected to demonstrate knowledge that Facility Association plays an important role in ensuring the availability of auto insurance coverage to all insureds who need it. • The most common error was failing to describe the origin of the program.
Part b
• Candidates did extremely well on this part almost all candidates received full credit. • Candidates were expected to demonstrate knowledge that the Facility Association uses multiple risk-sharing mechanisms • A common error was to identify Facility Association as the risk-sharing mechanism without further clarification.
Part c
• Candidates did very well on this part most candidates received full credit. • Candidates were expected to demonstrate understanding of the differences between the multiple risk-sharing mechanisms used by the Facility Association. • A common error was failing to answer the question in full. Some candidates did not discuss the underwriting and pricing of the two mechanisms.