

EXAM 6 – CANADA, FALL 2017

12. (2.5 points)

a. (0.25 point)

Briefly describe a reason for the establishment of the Property and Casualty Insurance Compensation Corporation (PACICC).

b. (1.25 points)

In the event of an involuntary exit, briefly describe:

- i. Three responsibilities of PACICC.
- ii. The role of claimants of the insolvent insurer.
- iii. The role of solvent member insurance companies.

c. (1 point)

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

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EXAM 6C FALL 2017 SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 12	
TOTAL POINT VALUE: 2.5 points	LEARNING OBJECTIVE(S): B1, B2
SAMPLE ANSWERS	
Part a: 0.25 point	
<u>Sample 1</u>	
<ul style="list-style-type: none"> To protect policyholder against insolvent insurer without exposing insurance industry to unlimited liability 	
<u>Sample 2</u>	
<ul style="list-style-type: none"> To provide financial relief to policyholder in the event of insurer insolvency 	
<u>Sample 3</u>	
<ul style="list-style-type: none"> Provide compensation for unearned premium and unpaid claims to policyholder whose P&C insurer becomes insolvent 	
Part b: 1.25 points	
<u>Sample answers for i. (three distinct responses required)</u>	
<ul style="list-style-type: none"> Pay claims and unearned premium Compensate policyholders Collect assessment from solvent participating insurer Receive any 3rd party recoverable to the insolvent insurer Model wind-up order Coordinate with the liquidator as for the working relationship PACICC may pay amount liquidator determines or review its appropriateness Redistribute dividends to surviving members Find a liquidator 	
<u>Sample responses for ii. (one response required)</u>	
<ul style="list-style-type: none"> Prove other source of compensation has been exhausted File a claim with all other possible source of compensation before collecting from PACICC Assign right to recovery from the insolvent insurer's estate to PACICC Get paid from PACICC for claims and unearned premium 	
<u>Sample responses for iii. (one response required)</u>	
<ul style="list-style-type: none"> Pay assessment Make contribution to PACICC as required Pay administration costs to PACICC Receive dividends from PACICC 	
Part c: 1 point	
<u>Sample responses (one answer from four distinct categories)</u>	
Company size:	
<ul style="list-style-type: none"> Smaller size firm has less diversified book Small companies have limited access to capital 	

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- Size: company with less than 10MM capital

Age of company:

- New companies face strong competition from existing insurers in the market
- Young firms tend to have inexperienced management
- Age: less the age higher the chance of insolvency
- Age: less than 10 years old

Growth of company:

- Companies with rapid growth tend to have inadequate pricing and reserve deficiency
- Fast recent year growth in written premium

Governance and internal control:

- Weak governance and internal control lead to operational failure

Other sample responses:

- Foreign branch due to insolvent parents
- Liquidity level: low liquidity level would be easier to cause insolvencies than those with high liquidity level
- Type of license: two thirds were federally supervised
- Deficient reserves: reserves for liabilities are inadequate
- Underwriting: mostly in auto and property
- Lack of diversification by product line/geographies, such that there is high concentration of risk, leading to higher likelihood of insolvency
- Alleged fraud: fraud happened within firm

EXAMINER'S REPORT

Candidates are expected to understand the purpose for the existence of PACICC, understand the funding mechanism and describe key company characteristics contributing to insurer insolvencies.

Part a

Candidates were expected to briefly describe a reason for the establishment of PACICC.

Common mistakes include:

- Description is not clear enough or missing key elements, e.g., protect policyholders, such as:
 - To redistribute assets of companies if they become insolvent
 - To provide funds for the insurance industry in case of individual insurer insolvency and provide stability to the industry
- Reason listed is irrelevant:
 - To ensure the solvency of the insurance company and to make sure the affordability and availability of insurance

Part b

Candidates were expected to briefly describe the responsibilities of PACICC, the role of claimants of the insolvent insurer and the role of solvent member insurance companies in an event of involuntary exit.

Common mistakes include:

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i. Three responsibilities of PACICC

- List items that are not PACICC's responsibility, such as:
 - Appoint liquidator
 - Liquidate asset of insolvent insurer
 - Handle claim settlement for insolvent insurer
 - Make a formal wind-up order

- Responsibility listed is not specific enough, such as:
 - Meet with liquidator
 - Coordinate with the insolvent insurer, liquidator and regulatorThe purpose or reasonable details of "meet" and "coordinate" are expected.

- List items similar in nature, such as:
 - Reimburse unearned premium to insured
 - Reimburse claims to insuredNo point was given to the second occurrence of a repeated answer.

ii. The role of claimants of the insolvent insurer

- The role listed is too general and not linked to the specific scenario described in the question: "in the event of an involuntary exit", such as:
 - Make sure their losses are compensated
 - Provide a proof of loss

- The role listed is not true, for example:
 - File claims to PACICC

iii. The role of solvent member insurance companies

- The role listed is too general and not linked to the specific scenario described in the question: "in the event of an involuntary exit", such as:
 - Provide coverage to policyholders of insolvent insurer

Part c

Candidates were expected to briefly describe four company characteristics that play a role in most insurer insolvencies.

A common mistake was:

- Answering without brief description, such as:
 - Rapid growth
 - Company size