11. (2 points)

The following information is available for two property and casualty insurance companies operating in Canada as at December 31, 2017. All amounts are in thousands of dollars ($000s).

	Company A	Company B
Written Premium in 2017	500,000	500,000
Written Premium in 2016	480,000	300,000
Underwriting Profit in 2017	(50,000)	10,000
Line of Business	Automobile and Property	Surety
Head Office Location	United States	Canada

Identify and briefly describe two potential threats to each company that could lead to an involuntary exit.

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QUESTION 11	
TOTAL POINT VALUE: 2	LEARNING OBJECTIVE(S): B3

SAMPLE ANSWERS

Sample Responses for Company A

- Company A is a foreign branch of an insurance company in the US. The failure of the parent company will lead to involuntary exit of Company A.
- The company has an international parent and if the international parent in the US fails the company has a threat to fail.
- Clearly the company is having trouble since it has a negative UW profit. May be related to inadequate pricing or deficient loss reserves.
- Underwriting loss in 2017 might indicate deficient pricing or deficient loss reserve.
- Catastrophe in Canada: could suffer a big loss in Canada due to its exposure in auto/property (mainly property).

Sample Responses for Company B

- Significant growth in last year (+66%). Often associated with underpricing and/or deterioration of reserve.
- High growth coupled with inadequate reserving and underpricing could be troublesome. Usually in new line of business with low expertise.
- Single line of business. The company may fail due to lack of spread of risks in the portfolio. High concentration in line of business could cause company to fail.
- Line of business is surety. Typical low frequency / high severity LOB. Low frequency -> less data -> inappropriate for pricing. High severity -> unexpected large claims -> deficient loss reserve.
- They only operate in one line of business, so the company is not that well diversified, which could lead to devastating effect if there is a major event in this LOB because of concentration risk.

EXAMINER'S REPORT

Candidates were expected to analyze the company profiles and identify potential threats, selected from the main causes of involuntary exit. The potential threats should be relevant to the company and the candidate should justify their selection based on the information provided.

Common mistakes included:

- Identifying potential threats without describing what they are.
- Identifying threats without justifying why they could potentially happen to the company, given the available information.
- Identifying the parent company of Company A being foreign and describing the related company characteristics that could lead to the voluntary exit of Company A, without saying that the failure or involuntary exit of the foreign parent company may lead to the involuntary exit of Company A.
- Identifying Company A's negative underwriting profit without commenting on what could have led to that result, i.e., did not identify the underlying potential threats like inadequate pricing and deficient loss reserve.

- Identifying Company B's volatility or long-tail nature of surety business without tying those characteristics to potential threats.