

12. (2.25 points)

An insured has the following policies and outstanding claims with an insolvent insurance company.

Insurance coverage	Effective Date	Expiration Date	Full-Term Premium	Deductible	Date of Loss
Homeowner	January 1, 2018	December 31, 2018	\$1,000	\$1,000	February 1, 2018
Mortgage	January 1, 2018	December 31, 2018	\$600	\$0	February 1, 2018

A winding-up order is made in respect of the insurance company for March 31, 2018.

a. (1.25 points)

Calculate the insured's recovery from PACICC.

b. (0.5 point)

Assuming a distribution of \$50,000 is made by the liquidator of the insolvent insurance company, provide an explanation as to the amount of additional recovery the insured will receive.

c. (0.5 point)

Briefly describe two ways PACICC can obtain funding.

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QUESTION 12**TOTAL POINT VALUE: 2.25****LEARNING OBJECTIVE(S): B1-B3****SAMPLE ANSWERS****Part a: 1.25 point**Sample 1

Mortgage is not covered by PACICC

$$\text{Recovery} = 70\% \times \min(1000, 1000 \times 9/12) = 525$$

No loss amounts

$$\text{Total recovery} = 525$$

Sample 2

Only get recovery on Homeowner policy since PACICC only covers Homeowner and Automobile

Since no information on loss, assume a loss of 300000 for the Homeowner

$$\begin{aligned} \text{Recovery} &= \text{Unearned Premium} + \text{Outstanding Loss} \\ &= 70\% \times \min(1000, 1000 \times 9/12) + \min(300000, 300000 - 1000) \\ &= 525 + 299000 = 299525 \end{aligned}$$

Comment on answer

A loss amount of either zero or an assumed number was accepted given that the loss amount was not included in the question.

Part b: 0.5 point

Sample

The insured will receive no additional recovery as a result of liquidator of \$50,000. Recoveries from liquidator are used to reduce future assessments for insurers under PACICC.

Comment on answer

Candidates' answer differed dependent on the assumption they made in part a. above for the missing loss amount.

Part c: 0.5 point

Sample Responses (any two of the following)

- Through assessments from remaining solvent insurers
- Borrow money from Compensation fund (pre-insolvency funding)
- Liquidation of assets from insolvent insurer

EXAMINER'S REPORT

Candidates were expected to know the unearned premium calculation for PACICC payments and understand the recovery and funding process of the plan.

Part a

Candidates were expected to know the recovery from PACICC in the event of insolvency. Candidate also need show the knowledge on the recovery of UPR.

Common errors included:

- Calculating the unearned premium for the Mortgage policy which is not covered by PACICC
- Miscalculating the unearned portion of the premium
- Forgetting elements in the formula

Part b

Candidates were expected to understand the recovery process of amounts paid by PACICC. PACICC recovers any amounts already paid before any additional payment is received by the policyholder for a claim.

A common error included:

- Calculating the amount paid by PACICC net of distribution from liquidator instead of explaining the additional recovery the insured would receive.

Part c

Candidates were expected to understand the funding mechanisms and sources of funding of PACICC.

A common error included:

- Including “government taxes” as a source of funding