

EXAM 6 – CANADA, FALL 2019

1. (2 points)

a. (0.75 point)

Briefly describe three reasons the insurance industry was singled out for specific solvency legislation in the 1870's.

b. (0.25 point)

Briefly describe a reason guidelines are often favoured over legislation as a form of insurance regulation.

c. (1 point)

Briefly describe four key principles the Office of the Superintendent of Financial Institutions (OSFI) uses in its risk assessment of insurance companies.

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SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 1	
TOTAL POINT VALUE: 2	LEARNING OBJECTIVE(S): A1, A2
SAMPLE ANSWERS	
Part a: 0.75 point	
<u>Sample</u> <ul style="list-style-type: none">• Many insurers went bankrupt in 1870's• Insurance often carries a saving /investing component or function, so it is very important to protect the policyholder• It was recognized that short term price competition is harmful for insurance	
Part b: 0.25 point	
<u>Sample 1</u> <p>Changes to legislation must go through the senate, house of commons and the royal approval, while guidelines don't need to go through these steps</p>	
<u>Sample 2</u> <p>Guidelines are subject to interpretation, so more flexible than legislation</p>	
<u>Sample 3</u> <p>Guidelines are interpreted rules on how things should be done</p>	
Part c: 1 point	
<u>Sample 1</u> <ul style="list-style-type: none">• Be forward looking to allow early intervention• Use sound predictive judgement• Identification of risk: must be able to identify all material risks• Differentiate inherent risks and risk management	
<u>Sample 2</u> <ul style="list-style-type: none">• Dynamic adjustments• Sound predictive judgement• Differentiate between inherent risk and risk mitigation• Understanding drivers of risks: should understand what the key causes of risks are	
EXAMINER'S REPORT	
Candidates were expected to understand the historical development of insurance, understand the difference between legislation and guidelines, and know the key principles of OSFI's supervision related to risk assessment.	

SAMPLE ANSWERS AND EXAMINER'S REPORT

Part a

Candidates were expected to understand the historical development of insurance and factors that contributed to insurance solvency regulation in the 1870s.

Common errors included:

- Stating general factors not specifically related to the 1870's
- Stating "protection of policyholders" without comment on reasons
- Stating "insurance companies are more prone to insolvency"

Part b

Candidates were expected to understand the difference between legislation and guidelines.

Common errors included:

- Stating "guidelines need disclosure" without commenting on legislation
- Stating "legislation is interpreted" without commenting on guidelines

Part c

Candidates were expected to know the principles OSFI uses in its risk assessment of insurance companies.

Common errors included:

- Providing principles that are not part of OSFI's Supervisory Framework