

EXAM 6 – CANADA, FALL 2019

4. (1.75 points)

In EY's 2017 report, *ICBC Affordable and Effective Auto Insurance*, there are multiple issues identified describing the frequency and severity of automobile insurance claims covered by the Insurance Corporation of British Columbia (ICBC).

a. (0.5 point)

Identify and briefly describe ICBC's insurance model.

b. (0.5 point)

Briefly describe two ways in which the model contributed to affordability issues related to increasing premiums over time.

c. (0.75 point)

Identify and describe an alternative to ICBC's insurance model described in part a. above.

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SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 4	
TOTAL POINT VALUE: 1.75	LEARNING OBJECTIVE(S): A2
SAMPLE ANSWERS	
Part a: 0.5 point	
<u>Sample (two of the following)</u>	
<ul style="list-style-type: none"> • ICBC uses a litigation-based model • They allow not-at-fault drivers to sue at-fault drivers in any case, regardless of severity of injury • Public insurance for basic coverage 	
Part b: 0.5 point	
<u>Sample responses (any two of the following)</u>	
<ul style="list-style-type: none"> • Frequency of accidents are increasing • Severity of minor-injury claims are increasing • Since it is mainly tort, most losses are paid to lawyers thus the increase in loss & prem • Risk classification doesn't change enough for high-risk • There is no minor injury capping • Premiums collected are not enough to cover the increasing claim cost 	
Part c: 0.75 point	
<u>Sample responses (any three of the following)</u>	
<ul style="list-style-type: none"> • Replace by private insurers • Charge actuarially sound premium / Risk-based pricing • Focus on providing care • Limit benefits from litigation with caps of non-pecuniary damages • Mixed system like in Quebec / Hybrid model • Increase no-fault AB benefits levels to discourage litigation • Use the money generated from road safety measures like traffic cameras to fund system 	
EXAMINER'S REPORT	
Candidates were expected to understand the underlying mechanism of motor vehicle insurance in British Columbia and the issues leading to premium deficiency.	
Part a	
Candidates were expected to know that BC has a public insurance litigation-based system providing basic coverage.	
A common error included:	
<ul style="list-style-type: none"> • Providing an incomplete answer, for example, "Crown Corporation" without mentioning basic coverage • Providing an incorrect answer, for example, "litigation no-fault" 	
Part b	
Candidates were expected to identify issues that led the system to its current state.	

SAMPLE ANSWERS AND EXAMINER'S REPORT

Common errors included:

- Providing an incorrect answer, for example, "lack of competition"
- Not mentioning issues related to insurance affordability

Part c

Candidates were expected to propose an alternative system, either a hybrid or private model, that could potentially solve the issues of the current state.

A common error included:

- Not adequately describing the benefits of the alternative system proposed