

EXAM 6 – CANADA, FALL 2019

10. (1.5 points)

a. (0.25 point)

Identify the goal of the Property and Casualty Insurance Compensation Corporation (PACICC).

b. (1 point)

Fully describe the funding mechanism and sources of funding for PACICC.

c. (0.25 point)

Briefly explain why the costs of involuntary exit are substantially lower in Canada than in the United States or the United Kingdom.

CONTINUED ON NEXT PAGE

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 10	
TOTAL POINT VALUE: 1.5	LEARNING OBJECTIVE(S): B1,B2
SAMPLE ANSWERS	
Part a: 0.25 point	
<u>Sample 1</u> Protect policyholder in the event of insurer insolvency for unpaid claims and unearned premium.	
<u>Sample 2</u> Compensate the policyholder in case of an involuntary market exit by insurer.	
Part b: 1 point	
<u>Sample 1</u> <ul style="list-style-type: none">• Pre-insolvency funding of compensation fund through a special levy• Assessments to solvent members• The % of a member's assessment is based on the % of written premium compared to the market in the jurisdictions the insolvent insurer was operating• PACICC limits the assessment to 1.5% of DWP	
<u>Sample 2</u> <ul style="list-style-type: none">• Investment income accumulated to fund• PACICC can borrow money from its fund and delay compensation, to be repaid with interest• Assess solvent member companies based on their market share• Assessments are limited to the shortfall between amounts advanced by PACICC and what is recovered from the insolvent insurer & 3rd parties	
Part c: 0.25 point	
<u>Sample 1</u> Dividends from the liquidation are returned to the solvent member companies in Canada.	
<u>Sample 2</u> Dividends are kept for future insolvencies in the USA and UK.	
EXAMINER'S REPORT	
Candidates were expected to understand the role and operations of PACICC and how it compares to other insurer insolvency mechanisms internationally.	
Part a	
Candidates were expected to understand the role of PACICC in the event of an insurer insolvency. Common errors included: <ul style="list-style-type: none">• Stating that PACICC prevents insolvencies• Stating that PACICC protects policyholders without specifying how	

SAMPLE ANSWERS AND EXAMINER'S REPORT

Part b

Candidates were expected to list the source of funding for PACICC.

Common errors included:

- Listing insolvent insurer assets when member assessments are excess of liquidated assets
- Listing third party recoveries when member assessments are excess of third party recoveries
- Listing compensation fund with no explanation
- Stating that the assessment is capped at a % of premium without reference to the actual percent
- Listing market financing
- Listing government support without any explanation

Part c

Candidates were expected to understand the difference between exit costs in Canada vs the US/UK.

Common errors included:

- Stating how OSFI has a supervisory target capital level for MCT > 150%
- Stating that the US/UK does not have an organization like PACICC
- Stating that PACICC covers the costs of exit
- Confusing Canada with the US/UK