1. (2.75 points)

    a. (0.5 point)

    Describe the primary purpose of rate regulation.

    b. (2.25 points)

    For each of the following lines of business, briefly describe the degree of regulatory scrutiny with respect to ratemaking, and provide two supporting reasons for it.

    - Homeowners insurance

    - Title insurance

    - Commercial cyber liability insurance

QUESTION 1	
TOTAL POINT VALUE: 2.75 points	**LEARNING OBJECTIVE: A1**
SAMPLE ANSWERS (BY PART, AS APPLICABLE)	

Part a: 0.5 point

The following provides examples of responses having the necessary components to demonstrate knowledge of the topic and obtain full credit; any two of the following received full credit:

- To protect policyholders.
- To ensure solvency of insurance companies.
- To ensure rates are not excessive, inadequate, or unfairly discriminatory.
- To make sure rates are affordable and insurance is available.
- To make sure rates are actuarially sound.
- To effect an equitable and efficient insurance market.

Part b: 2.25 points

The following provides examples of responses having the necessary components to demonstrate knowledge of the topic and obtain full credit; an explanation of the level of scrutiny and two supporting reasons for each coverage received full credit:

Homeowners Insurance
- High scrutiny.
- Regulatory overview of overall rate and detailed review on classification system

Reasons:
- Affects a significant portion of population.
- There is a great deal of political awareness around this coverage.
- Sophisticated rating and classification system.
- Insolvencies affect guaranty fund.
- Consumers are not sophisticated.
- Insurance is compulsory for most mortgages.
- Detailed stat plans with credible data.
- Legislators and regulators understand and are familiar with it.
- It's in the public interest.
- Homogenous insureds.

Title Insurance
Level of scrutiny given must match reasons given
- Low (with two low reasons)
- Medium (with one low and one high reason)
- Rate manuals filed (with two low reasons)

Low Reasons:
- Specialized Risk.
- Lack of credible data to base rates on.
- Driven more by business expenses than insurance costs.
- Managing rate is more about risk selection and underwriting efforts.

- Not a lot of loss data is available so it's difficult to come up with actuarially sound rates.
- Very low visibility to the general public so not as much of a political issue.
- Consumer often reviews with a financial institution who has knowledge of this insurance.
- Not very refined classification system or rating plan.
- Buyers of title insurance aren't eligible for guaranty funds.
- Minimal insurance risk covered by policy.
- Fairly standard risks.
- Coverage not compulsory.

High Reasons:

- Basically required by mortgage lender on every home sale.
- It affects the general public directly as it is part of the home-buying process.
- Buyers are slightly more sophisticated but may need information from regulators to facilitate decisions.

Commercial Cyber Liabilities

Level of scrutiny given must match reasons given

- Low (with two low reasons)
- Medium (with one low and one high reason)
- Rate manuals filed (with two low reasons)

Low Reasons:

- Doesn't impact a large portion of the population.
- Relatively new compared to other coverages so regulator has not had time to become heavily involved.
- Buyers have power to negotiate rates.
- Highly individualized risks.
- Most insureds are large sophisticated commercial companies.
- This is not a mandatory coverage.
- Not easy to understand coverage and price.
- This is a relatively new coverage without credible loss history to analyze.
- Requires expertise not yet found in most departments.

High Reasons:

- Risks are more common nowadays and impact normal people so greater public awareness.
- Potentially affects a ton of customers of the company purchasing the insurance.
- This is a relatively new area of liability so may require extra scrutiny to get started.

EXAMINER'S REPORT (BY PART, AS APPLICABLE)

The candidate was expected to know generally why rate regulation exists and how it affects different lines of business. Most candidates performed well on this question, especially part b.

Part a

Very few candidates provided incorrect answers. However, many of the answers were incomplete in that they only provided one thought when the point total of 0.5 and the request to "describe" indicated that at least two thoughts were needed. For example, simply answering "to ensure rates are not inadequate, excessive, or unfairly discriminatory" would be considered correct but incomplete.

Part b

Candidates were expected to be able to apply levels of and reasons for scrutiny given in the text to a new line of business. Candidates generally performed better on homeowners and commercial cyber liability than title insurance. Some common errors included providing a description of the level of regulatory scrutiny that did not match the reasons given for that level and providing two reasons that were essentially the same.