

EXAM 6 – UNITED STATES, FALL 2015

6. (3.25 points)

a. (0.75 point)

Briefly describe three key goals of insurance regulation.

b. (1 point)

As part of its modernization plan, the NAIC has undertaken (or plans to undertake) several initiatives to improve state-based insurance regulation. Describe two of these initiatives.

c. (1.5 points)

Describe one argument in favor of and two arguments against the following statement:

“The financial crisis of 2007-2008 demonstrated that insurance should be regulated at the federal level.”

## SAMPLE ANSWERS AND EXAMINER'S REPORT

<b>QUESTION 6</b>	
<b>TOTAL POINT VALUE: 3.25</b>	<b>LEARNING OBJECTIVE: A1 / A4</b>
<b>SAMPLE ANSWERS</b>	
<b>Part a: 0.75 point</b>	
Any three of the following: <ul style="list-style-type: none"> <li>• Promote fair and equitable treatment of insurance consumers</li> <li>• Ensure financial stability of insurers</li> <li>• Ensure insurer solvency</li> <li>• Ensure availability of insurance in the market</li> <li>• Prevent unfair discrimination towards consumers</li> <li>• Ensure availability of coverage</li> <li>• Promote a competitive market</li> <li>• Ensure that insurance companies have enough surplus</li> </ul>	
<b>Part b: 1 point</b>	
Any two of the following: <ul style="list-style-type: none"> <li>• ORSA - own risk and solvency assessment. Companies self-assess their own risk and provide valuable qualitative insight to regulators</li> <li>• IMF FSAP – financial sector assessment programs is an international in-depth look at regulation, especially on group comparisons</li> <li>• Solvency maintenance – create document laying out US insurance structure, look for ways to use int’l developments in insurance regulation in US and apply lessons from global financial crisis</li> <li>• Review IFRS accounting standards and improve uniformity in global insurance market, while improving assessment of short and long term profitability of insurers</li> <li>• Improve RBC calculation – operational risk charge and improve the square root formula</li> </ul>	
<b>Part c: 1.5 points</b>	
<p>“For” federal regulation (any one of the following):</p> <ul style="list-style-type: none"> <li>• Need one national voice in dealing with global insurance topics</li> <li>• Since insurance is a critical element of society, federal regulation would help avoid a massive insurer failure</li> <li>• A single authority would allow ease of monitoring so that business transactions in all states can be monitored together, as opposed to state by state</li> </ul> <p>“Against” federal regulation (any two of the following):</p> <ul style="list-style-type: none"> <li>• Insurance companies were the least hit by the crisis, which showed that current rules and regulations at the state level are effective in keeping insurance companies afloat and ongoing</li> <li>• Duplication, peer review, and diversity of opinions among state regulators more likely to catch failing companies</li> <li>• The low amount of problems in state-regulated insurers relative to federally-regulated banks shows that state regulation is an effective process</li> </ul>	
<b>EXAMINER'S REPORT</b>	
<b>Part a</b>	
The most common mistake was to repeat the same answer. For example, stating that regulation should ensure fair and equitable treatment of policyholders, as well as stating that regulation	

## SAMPLE ANSWERS AND EXAMINER'S REPORT

should protect consumers.

### **Part b**

This part was more challenging. The most common mistake was to list current functions of the NAIC that are not related to current initiatives in the NAIC modernization process.

### **Part c**

Common mistakes included stating that the federal government should regulate insurance because insurance needs federal regulation, or stating that the financial crisis proved state regulation is too expensive.