

EXAM 6 – UNITED STATES, FALL 2016

4. (2.5 points)

a. (0.75 point)

Briefly describe three areas of responsibility for the Federal Insurance Office, as established by the Dodd-Frank Act.

b. (0.75 point)

Briefly describe three restrictions on the authority of the Federal Insurance Office prescribed by the Dodd-Frank Act.

c. (1 point)

Provide one argument in favor of and one argument against the following statement: “The reforms outlined in the Dodd-Frank Act are beneficial to reinsurers.”

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 4	
TOTAL POINT VALUE: 2.5	LEARNING OBJECTIVE: A4
SAMPLE ANSWERS	
Part a: 0.75 point	
<u>Sample Responses:</u> <ul style="list-style-type: none">• Report to the House and Senate each year on the state of the insurance industry• Assist in the administration of TRIA.• The FIO collects data on the insurance industry.• Make recommendations on how to improve insurance regulation.• Monitor the insurance industry• Can pre-empt state regulation when a non-US insurer is being treated less fairly than a US insurer under a covered agreement• Assist in negotiation of international agreements.	
Part b: 0.75 point	
<u>Sample Responses:</u> <ul style="list-style-type: none">• Can't preempt state regulation regarding (each accepted as 1 response): Rates, Underwriting, Coverage Requirements, Sales Practices, Solvency/Capital Requirements (unless such requirements result in less favorable treatment of a non-US insurer vs a US insurer• If the information is confidential, they should also keep it confidential.• The FIO can only preempt state regulations to the extent they conflict with a covered agreement.• Cannot request information from small insurers.• Must look for information from state and federal government sources before requesting information from the insurer.• FIO may not designate an event a terrorism event for the purposes of TRIA, only the Secretary of the Treasury may• FIO may only advise, but not accept international insurance agreements.• FIO Lacks enforcement power on subpoenas• Must go through a rigorous process to preempt state law	
Part c: 1 point	
<u>Sample Responses:</u> <p>For:</p> <ul style="list-style-type: none">• It now makes it easier for reinsurers to operate in multiple states because if the home state is NAIC accredited (or equivalent) and recognizes credit for the reinsurer- other states must also recognize credit.• Reinsurers can be financially regulated only by their domiciliary state. Less costly for reinsurers to operate in all states.	

SAMPLE ANSWERS AND EXAMINER'S REPORT

Against:

- The insurers in the US will now face steeper competition from alien insurers that try to take away market share, and now have an easier path to doing so.
- Dodd Frank made it easier for consumers to access surplus lines which are notoriously difficult underwriting risks. Reinsurers may be less willing to reinsure these risks and therefore lose out on business.
- Because of weaker solvency regulation, insurers are more likely to demand additional collateral from the reinsurers.
- As a result of Dodd Frank, a reinsurer may be designated a SIFI and therefore face additional regulation.

EXAMINER'S REPORT

The candidates were expected to describe the role of the Federal Insurance Office. Parts A and B were direct points from the reading with only a brief description required. Part C, however required more critical thinking, with the candidates needing to support an argument both for and against Dodd-Frank.

Part a

The candidates were expected to know the basic responsibilities given the FIO by the Dodd-Frank act.

Common mistakes included:

- Statements that the FIO designates insurers as SIFI's and/or is responsible for monitoring/regulating them their solvency. Designating SIFIs is the responsibility of the FSOC and the FRB respectively. Responses that the FIO is responsible for identifying and/or recommending the insurers for SIFI designation to the FRB were accepted.
- Statements that the FIO is responsible for ensuring that states do not discriminate between domestic and alien reinsurers. This was not awarded credit unless candidates also mentioned that covered agreements/treaties must also be breached.
- Misstatements that the FIO negotiated agreements with foreign insurers, instead of foreign countries or foreign insurance regulators.
- Assertions that the FIO "oversees" the insurance industry. This was not accepted as it didn't display specific knowledge of the powers that FIO is given.

Part b

The candidates were expected to state limitations on the FIO's powers as addressed in the readings. A variety of restrictions on the FIO's powers were accepted.

Common mistakes included:

- Responses that the FIO can't pass laws. As the FIO was never given the responsibility of passing laws, this was not awarded credit. In general, any limitation on the FIO of a power it never had originally was not accepted.

SAMPLE ANSWERS AND EXAMINER'S REPORT

- Responses that if states are regulating insurance, federal regulation does not apply.
- Responses that states still are the insurance regulators, or that FIO could not regulate the "business of insurance". This was considered too vague.
- Statements that the FIO has no enforcement power over states or can only advise states and not regulate them. A similar response was that the FIO cannot supersede state regulation.
- Responses that the FIO can't directly intervene with an insurance company. This is not a restriction on the FIO's key duties, which don't involve directly regulating insurers.
- Statements that the FIO had to attest that information it requested from insurers was required before requesting it.

Part c

The candidates were expected to provide a response that correctly articulated knowledge of a component of Dodd-Frank -- and logically spelled out a benefit/detriment to a reinsurance company.

Some candidates brought up the topic of "certified" reinsurers. This was not so much a result of Dodd-Frank as the NAIC's implementation of a Dodd-Frank compliant mechanism for Schedule F. However, the concepts are closely related and the responses generally displayed a high level of knowledge about the topic. If the response was otherwise acceptable, credit was awarded for this.

Common mistakes included:

- Responses that only answered half the question for the "favor" part - they did not extend the point they made to say how it benefited the reinsurer as the question asked them to.
- Responses where the perspective was not that of a reinsurer, as the question asked.
- Statements that Dodd Frank did not impact alien reinsurers.
- References to a reinsurer's (instead of insurer or cedant's) state of domicile re: credit for reinsurance.
- Confusing the concepts of non-admitted carriers and reinsurers, and blurred the lines between Dodd-Frank's impacts on the two.
- Answers that premium tax is paid only in the home state of the insured for reinsurers.