

EXAM 6 – UNITED STATES, FALL 2016

8. (2.5 points)

a. (0.5 point)

Briefly describe two common characteristics of high-risk driver programs in the automobile insurance voluntary market.

b. (1 point)

Identify and fully describe one automobile insurance residual market program.

c. (0.5 point)

Describe the purpose of Fair Access to Insurance Requirements (FAIR) plans.

d. (0.5 point)

Briefly describe two types of exposures that are considered uninsurable under most FAIR plans.

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 8	
TOTAL POINT VALUE: 2.5	LEARNING OBJECTIVES: B1, B2
SAMPLE ANSWERS	
Part a: 0.5 point	
<p>Any two of the following criteria:</p> <p>Sample Responses for “coverage amount is limited to the state’s financial responsibility requirements”</p> <ul style="list-style-type: none">• Often only offer minimum state required policy limits• Liability limits limited to financial responsibility limits <p>Sample Responses for “collision Insurance only available with a high deductible”</p> <ul style="list-style-type: none">• High collision deductibles• Collision coverage will usually have a high deductible <p>Sample Responses for “premiums are substantially higher than average and above-average drivers”</p> <ul style="list-style-type: none">• Higher prems than low-risk and moderate risk drivers• Rates are higher in high-risk driver programs than regular voluntary market• Significantly higher than average premium <p>Sample Responses for “medical payments coverage is limited”</p> <ul style="list-style-type: none">• Medical payment is reduced (for the insured)• Typically have lower medical limit offerings• There may be limited medical coverage <p>Sample Responses for “discounts for safe driving”</p> <ul style="list-style-type: none">• High risk driver programs give discounts for going a certain period of time w/o a violation or accident	
Part b: 1 point	
<p>Identify and fully describe one of the below automobile insurance residual market programs:</p> <p>Sample Responses for Assigned Risk or Automobile Insurance Plan:</p> <ul style="list-style-type: none">• Assigned risk – insured applies for insurance and is rejected. Once they prove they are rejected and meet the requirements, they apply to assigned risk through broker. They are randomly assigned to insurance company (weighed by each company’s market share). These companies handle claims as if they wrote this direct.• A residual program can be an Assigned Risk Plan. Under this plan, a high risk driver who has been rejected by an insurer applied to this plan and will be allocated an insurance company based on the insurance company market share in auto insurance. The insurance	

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will charge a premium that is determined by the state and will provide the servicing and handle all the claims from the policy. Losses will be borne by the company and will be subsidized by the experience of the pool of the insurer.

Sample Responses for Joint Underwriting Association:

- Joint Underwriting Association (JUA). Applicants apply to insurers, and are referred to the carrier of the program. Carrier is appointed by state. It processes the premiums and claims with fees. Loss/gains in the pool is shared by the participants based on their share of the voluntary market.
- JUA (Joint Underwriting Association) – Applicants sent to servicing carrier who issues policy, rates and forms set by JUA. Losses shared by all insurers in the state based on market share.

Sample Responses for Reinsurance Facility:

- Reinsurance facility: Insurer accepts all risks applied with valid driver's license. Insurer chooses which risks to cede to reinsurance facility. Insurer issues policies and handles claims. Insurer is reinsured by reinsurance facility. Profit/loss of the program is shared among insurers.
- The Reinsurance Facility – the policyholder applies for insurance with an insurer. The insurer decides whether to insure it or not insure it discreetly. If they decide not to insure it, they continue to service the policy but the profits and claims are reallocated to the market based on market share.

Sample Responses for Maryland State Fund:

- Maryland State Fund – for auto insurance, requires insurers in the state subsidize the cost of insurance for those in the fund and then can surcharge their own insureds to make up the difference.

Part c: 0.5 point

Sample Responses:

- FAIR attempts to provide affordable and adequate coverage to properties that are typically hard to insure, usually due to being in a community prone to riots and vandalism.
- In the 60s, riots caused property insurance premiums to increase in urban areas. FAIR plans aim to make property insurance available and affordable.
- The purpose of FAIR was to provide affordable coverages to insureds located in high-risk zones that the private market wasn't willing to write. Since most federally backed mortgages required homeowners insurance, the government stepped in to fill the void.
- FAIR plans are responsible for making sure that coverage is available and affordable for causes of loss such as windstorm in southeast U.S.
- Provide insurance coverage to properties in areas that are subject to hazards that make them unable to acquire coverage in the voluntary market.

Part d: 0.5 point

SAMPLE ANSWERS AND EXAMINER'S REPORT

Any two of the following:

Sample Responses for uninsurable exposures (interpreted as types of property):

- Properties that are vacant/open to trespass
- Properties that subject to poor housekeeping
- Poorly maintained homes
- Properties that are not in compliance with applicable laws of the state
- Homes that are already damaged
- Houses that do not follow the building codes
- Unsafe/hazardous conditions of the home which are not due to the environment

Sample responses for uninsurable exposures (interpreted as hazards):

- Flood – generally not considered insurable but coverage can be gotten from NFIP

EXAMINER'S REPORT

The candidates were expected to demonstrate knowledge of the origin and purpose of government and industry insurance programs, and the operations and risk transfer process of residual market programs.

A common mistake was reading part a as referring to involuntary rather than voluntary high-risk driver programs and then repeating the same responses in multiple subparts.

Part a

The candidates were expected to know common characteristics of high-risk driver programs in the voluntary market. Credit was given for listing at least two of the characteristics listed above.

Common mistakes included:

- Misreading “voluntary” as “involuntary”, and giving answers similar to those given for part b.
- Describing characteristics of the high risk drivers rather than characteristics of the program.

Part b

The candidates were expected to know automobile insurance residual market programs.

Credit was typically given for naming the program even if the name was not precise, for example “Automobile Risk Plan” when the name should be either “Assigned Risk Plan” or “Automobile Insurance Plan” as long as the description matched the imprecise name.

SAMPLE ANSWERS AND EXAMINER'S REPORT

Common mistakes included:

- Insufficiently describing the program or mixing descriptions of two different residual programs
- Not identifying the program being described (credit was still given for the description).

Part c

The candidates were expected to understand the purpose of FAIR plans and to describe exposures such as civil commotion or wind that are covered by the plans.

Common mistakes included:

- Generic descriptions such as “to meet an unmet need for insurance”, without clarifying what the need was or whose need was not being met
- Interpreting FAIR as an automobile residual market program

Part d

The candidates were expected to know what types of exposure could be considered uninsurable under most FAIR plans.

The reading used the term “exposure” to refer both to types of property and to hazards such as fire. Credit was given if the candidate interpreted exposure as a hazard such as flood that is not covered by FAIR. Credit was not given for describing hazards such as riot or civil commotion, or windstorm, which FAIR is intended to insure against.

The most common errors were:

- Describing types of automobile drivers
- Describing properties threatened by riot, civil commotion, brushfire, windstorm, as being uninsurable under FAIR
- Describing terrorism as an uninsurable peril