

6. (2.75 points)

a. (0.5 point)

Identify two coverage restrictions that a private passenger auto insurer may impose upon a high-risk driver to reduce the insurer's risk to an acceptable level.

b. (1.5 points)

Fully describe the assignment of private passenger auto insurance risks for each of the following:

- i. Assigned Risk Plans
- ii. Joint Underwriting Associations

c. (0.75 point)

Assume that a telematics device exists that works in all vehicles. The insurance commissioner of a particular state makes this telematics device mandatory for all policyholders in the voluntary private passenger auto insurance market. Assess the effect that this mandate would have on the relative sizes of the voluntary and involuntary markets in the state.

**SPRING 2017 EXAM 6U SAMPLE ANSWERS AND EXAMINER'S REPORT**

<b>QUESTION 6</b>	
<b>TOTAL POINT VALUE: 2.75</b>	<b>LEARNING OBJECTIVES: B1, B2, B3</b>
<b>SAMPLE ANSWERS</b>	
<b>Part a: 0.5 point</b>	
<p>Any two of the following:</p> <ul style="list-style-type: none"> <li>• Higher Deductible for collision risks to reduce losses.</li> <li>• Limitations for medical risks also to reduce losses for insurance company.</li> <li>• Only offer compulsory liability limits.</li> <li>• Require Large Collision Deductible.</li> <li>• Writing policies without Collision/Comp or Med.</li> <li>• Excluding certain types of claims like glass.</li> </ul>	
<b>Part b: 1.5 points</b>	
<p><u>Sample Answers for Assigned Risk Plans</u></p> <ul style="list-style-type: none"> <li>• The driver applies to and is rejected by the voluntary market. They are then assigned to an insurer based on market share. The policy is then handled by the assigned insurer as if it was written voluntarily. Premium and losses stay with the assigned insurer.</li> <li>• Insureds must first be rejected by the voluntary market. They then apply directly to the assigned risk plans. The insureds are then randomly placed with insureds based on the market share of the auto insurance in the voluntary market for each insurer. The insurer is responsible for the profit/loss of their assigned insureds.</li> </ul> <p><u>Sample Answers for Joint Underwriting Associations</u></p> <ul style="list-style-type: none"> <li>• Insurance agents submit the applications directly to the JUAs with a servicing insurer. The servicing insurer would handle premium collections and claims handling. The total profit/loss for all high risk insured in the JUA would be pooled and split between insurers based on their market share of voluntary auto.</li> <li>• Insured apply and are rejected by voluntary market. The broker then submits an application to the JUA. Premium and Losses of the policy shared by all insurers in JUA. One or more insureds may service the JUA policies (Pay claims etc.)</li> </ul>	
<b>Part c: 0.75 point</b>	
<p>Sample answers include:</p> <ul style="list-style-type: none"> <li>• The voluntary market share would increase while involuntary market share drops. This is because with telematics, insurer can assess the risk and charge accordingly, or adjust available coverages accordingly with underwriting. They are more willing to accept risks with hopes that by using telematics they can manage the risk they take.</li> <li>• Several drivers would leave the voluntary market and go to the involuntary market due to</li> </ul>	

## SPRING 2017 EXAM 6U SAMPLE ANSWERS AND EXAMINER'S REPORT

reasons like cost of the program to install or subscribe to, worries that they will be penalized for when, where, how much, or how they drive, concerns over privacy and use of data, and concern over lack of regulatory oversight. The size of the involuntary market would increase due to refusal of voluntary coverage or not qualifying due to not purchasing device.

### EXAMINER'S REPORT

Candidates were expected to demonstrate knowledge of residual markets, including mechanics of various residual market mechanisms.

#### Part a

Candidates were expected to name two coverage restrictions.

Common errors include:

- Stating a pricing strategy, such as price the policy high, rather than a coverage restriction.
- Providing a response to offer no coverage. This is not a coverage restriction.

#### Part b

Candidates were expected to fully explain the mechanics of assigned risk plans and joint underwriting associations. Candidates struggled with differentiating the mechanics of different types of residual markets.

A common error was referring to policies being serviced by the JUA. It is an association, not an actual company. Therefore, the JUA does not service policies.

#### Part c

Candidates were expected to take a stance on the relative size change of the residual market and give an argument for why.

A common error was mentioning the residual market would increase due to stricter underwriting guidelines without mentioning why pricing is an unavailable option.