3. (2.25 points)

   a. (0.5 point)

      Define regulatory forbearance.

   b. (0.5 point)

      Briefly describe two causes of regulatory forbearance.

   c. (0.5 point)

      Briefly describe two effects of regulatory forbearance.

   d. (0.75 point)

      Identify two RBC action levels where the risk of regulatory forbearance exists, and briefly describe why.

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QUESTION: SPRING 2018 EXAM 6U, QUESTION 3	
TOTAL POINT VALUE: 2.25	**LEARNING OBJECTIVE: A2**
SAMPLE ANSWERS	
Part a: 0.5 point	
• Failure to act promptly as a regulator when an insurance company has poor financial health • Regulator does not act fast enough with struggling insurer	
Part b: 0.5 point	
• Insurer may be a big player in the market and thus make a significant impact • It could ruin the regulator's reputation, especially if the insurer could have improved • Idea that company could recover w/o intervention • Avoid costly disputes – insurer may contest regulators actions, which results in disputes that can cost resources	
Part c: 0.5 point	
• Insurers that would otherwise have a chance at corrective action/rehab would go insolvent • Insurer could be engaging in risky behavior because it knows that it's not doing well and is betting on upside risks; could end up hurting insurer & public	
Part d: 0.75 point	
• Regulatory Action Level • Authorized Control Level • In both cases Regulator has discretionary authority which opens the door to forbearance since no actions by the regulator are required	
EXAMINER'S REPORT	
The candidate was expected to understand and describe the concept of regulatory forbearance.	
Part a	
Candidate was expected to describe regulatory forbearance. A common error was not stating that there is a timing component to regulator forbearance. That is, the regulator should take prompt action/ act without delay / not hesitate / etc.	
Part b	
Candidates were expected to understand causes of regulatory forbearance. Common errors included the following: • Supervisory ineptitude, limited resources/staff • Insurer's reputation may be damaged • Listing other regulatory failures (regulator fallibility, regulatory capture)	
Part c	
Candidates were expected to understand results of regulatory forbearance.	

Common errors included the following: • Peer pressure from other regulators – while this idea is referenced in the syllabus, it is framed as an incentive to act, therefore preventing regulatory forbearance (and is not an effect because peer pressure exists regardless of regulatory forbearance). • Loss of faith/credibility in regulators – similar to peer pressure, this is considered to be an incentive to act to prevent regulatory forbearance rather than an effect • Market disruption (inequitable rates, impact on guaranty funds) – this concept was often described as an impact of insolvency without reference to regulatory forbearance specifically and therefore not given credit. • Insolvency – insolvency can be cause by issues other than regulatory forbearance; it is not a direct result of the inaction by a regulator.
Part d
Candidates were expected to understand various RBC scenarios where regulatory forbearance may exist. The most common error was providing other RBC action levels. Under Company Action Level, the regulator does not have authority to act. Under Mandatory Control Level, the regulator must act.

QUESTION: SPRING 2018 EXAM 6U, QUESTION 4	
TOTAL POINT VALUE: 3.5	**LEARNING OBJECTIVES: A4, A1, B2**
SAMPLE ANSWERS	
Part a: 1 point	
Sample Responses for Circumstances • After applying for a license to do so and being denied, Paul sold insurance in VA for NY insurers. He was arrested since NY insurers did not have necessary deposit in VA and he continued to sell the NY insurance. • Paul wanted to represent an insurance domiciled in New York to sell insurance in Virginia. This was rejected by the Virginia regulator because the insurer did not post the required foreign insurer deposit. Paul went on to sell insurance policies anyway and was later arrested. • Paul wanted to sell insurance policies underwritten by NY companies in his home state of VA. VA officials balked as the insurers hadn't paid up the required foreign insurer's bond. Paul sold the policies anyway as he felt he was engaged in interstate commerce, which would be subject to federal, and not state regulation. • Paul wanted to be licensed in Virginia to sell/issue the policies of a NY insurer. He was refused the license but decided to sell anyway. He was arrested. *Sample Responses for Results* • It went to court and the result was that insurance was not an interstate commerce and should be regulated by the states. • The lower court, affirmed by the Supreme Court, ruled that insurance was delivered locally and not subject to the commerce clause. Therefore, insurance was subject to state	