6. (2.75 points)

   a. (1 point)

      Fully describe Assigned Risk Plans.

   b. (1 point)

      Fully describe Joint Underwriting Associations (JUA).

   c. (0.75 point)

      An insurance company is planning to write personal auto insurance in a new state. It has a choice between State A, which has an Assigned Risk Plan, and State B, which has a JUA. In all other respects, the auto insurance markets in State A and State B are the same. Provide a recommendation for which state the company should write in and explain the rationale.

CONTINUED ON NEXT PAGE

not answer this question.
Part c
Candidates were expected to recall the NAIC model act that was issued in response to the Act. Common mistakes included: • Answering with the Dodd-Frank Act, or other federal legislation, which was not an act of the NAIC. • Answering with an NAIC act that addressed privacy concerns by restricting data sharing between affiliates.

QUESTION: SPRING 2018 EXAM 6U, QUESTION 6	
TOTAL POINT VALUE: 2.75	**LEARNING OBJECTIVES: B2, B3**
SAMPLE ANSWERS	
Part a: 1 point	

- Drivers apply and are rejected from insurers, then apply to the ARP. Those policies are assigned to all companies in the state based on their auto premium. Once assigned, the insurance company treats those policies as if they wrote them, and is in charge of collecting premium and settling claims.
- Insured was rejected by insurers and went to involuntary market. Then insured will be assigned to an insurer to buy auto insurance at price and coverage level determined by the Assigned Risk Plan. The insurer will write and service the insured and retain the profit/loss.
- When a consumer is unable to attain coverage within 60 days in the voluntary market, they are placed in an Assigned Risk Plan in the involuntary market. The consumer will have higher premium, higher collision deductibles, and limited Med Pay coverage. The insurer receives a number of high risk drivers that corresponds with their share of the state market. The insurer is responsible for the losses of these drivers only.
- A risk applies for auto coverage in the private market, but is denied from a significant number of insurers. The risk can then purchase coverage from the Assigned Risk Plan, which offers minimum limits at a higher rate than the voluntary market. Risk is assigned to insurer based on market share and insurer services policyholder normally.
- High risk drivers are denied coverage in voluntary market. With a valid driver's license, they apply to ARP. APR allocates policies to insurers of the state based on their share in voluntary market.
- After the person fails to secure an insurer in voluntary market for 60 days or more, and is able to meet certain criteria (having a license and no felonies in a certain period), applies to ARP. ARP distributes the policyholders to all insurance companies operating in the state by market share. The insurance company is responsible for the allocated driver's loss and profit. This makes it a very volatile residual program.
- Insureds gets rejected from the voluntary auto market. Each insurer in the market is assigned a portion of these policies based on their premium volume in the voluntary market. Rates are usually higher than those in the voluntary market. Insured has a stigma

for being in this residual market.

Part b: 1 point

- If a high risk applicant applies, a broker forwards the risk to the JUA. Servicing carrier writes and services policy and handles the claims. The consumer doesn't know that he/she has been rejected. Premium and loss is allocated based on market share in voluntary market.
- If the driver is rejected by the admitted auto insurance market, he/she could come to the service carriers of the JUA. The carrier would write the policy, collected premium, and the losses would be shared by the auto insurance companies based on their market share in the state. The driver would not receive a stigma of being in an Assigned Risk Plan.
- A driver applies for and is rejected from the voluntary market. An agent/broker submits the driver's application to the JUA. All losses and premium are pooled and paid based on insurer's market share in the state's voluntary market. An insurer or group of insurers may provide services for the policies in exchange for a portion of the premium.
- JUA are programs with set rates and forms. These groups are serviced by private insurance companies. The total risks are pooled and the profits/losses are shared by all participating insurers by market share. Servicing insurers are paid for servicing the policies.
- Insured applies and is rejected. Gets forwarded to JUA. Servicing carrier services the policy for a fee. Any gain or loss is spread to individual companies based on market share.
- In JUAs, brokers/agents submit high risk individuals to the JUA which may have a policy issuing syndicate or voluntary servicing insurer. The JUA sets the rates and determines coverages. Premiums and losses are shared by insurers' voluntary market share.
- A certain number of servicing insurers serve risks which can't obtain coverage in private market. Servicing insurers collect premiums, handle claims, and service policies. Loss and expenses shared by private insurers based on market share. Rates are higher than voluntary market and usually the same for all insurers.

Part c: 0.75 point

- The insurer should write in State B where there is a JUA. The JUA shares in UW losses and premiums while in an assigned risk plan they are assigned individual risks. The assigned risk plan is much more volatile as the insurer could be assigned the worst risks, hurting their profits.
- The company should write in State A. Since the insurer is entering a new state, the assigned risk plan can allow the insurer to potentially keep assigned drivers that become better risks, and therefore grow its market share. Additionally, since the company is responsible for servicing the policy, they can take advantage of any efficiencies they may have to lower costs.
- The company should write in State B. In addition to there being more stability in the loss experience for individual insurers, there is less of a stigma for the policyholder in going to the JUA rather than being assigned to a company they know little about.
- Write in State B. JUA doesn't have the stigma for the insureds being in high risk plans. All loss/profit is shared by the pool. Group of servicing agents maintain and operate the pool, alleviating the need for insurers to do it themselves which saves expenses.

- Because the company is just starting out, they won't have much business at first so a JUA would offer more stability in results as opposed to the luck of the draw on assigned risks.
- If the company has better claims handling and can lower claim cost, company should write in State A (ARP). If the company wants less volatility due to claims in the involuntary market, the company should write in State B (JUA).
- State A, the Assigned Risk Plan, is recommended. Each policy assigned to company has potential to be profitable. Expenses will follow the company's own practices rather than the JUA's so there is an opportunity to be more efficient. JUA practices tend to be less efficient and to produce U/W losses.
- Recommend State B, because JUA spreads risk more so results due to residual market will be less volatile, and company will have an easier time planning for the future.

EXAMINER'S REPORT

Candidates were expected to demonstrate knowledge of the characteristics of two forms of residual auto programs, the Assigned Risk Plan and the Joint Underwriting Association, and to be able to provide reasonable justification for recommending one over the other.

Part a

Candidates were expected to know multiple distinct characteristics of Assigned Risk Plans.

Common mistakes included:

- Failing to identify that assignments are in proportion to voluntary market share.

Part b

Candidates were expected to know multiple distinct characteristics of Joint Underwriting Associations.

Common mistakes included:

- Failure to identify servicing carriers as an integral part of a JUA.
- Misstating the role of the state in creating and operating the JUA.

Part c

Candidates were expected to provide a reasonable justification for recommending a choice between Assigned Risk Plan (ARP) state or a Joint Underwriting Association (JUA) state. The recommendation was expected to be based on the operational differences between ARP and JUA plans and how those difference impact the company.

Common mistakes included:

- Failing to realize that both the JUA and ARP require participation of voluntary insurers based on market share.
- Incorrectly describing the aspects of the Assigned Risk Plan or Joint Underwriting Association.
- Incorrectly defining the ratemaking process (usually for the JUA).