

7. (2.75 points)

a. (1.5 points)

Describe how risks are placed in each of the following residual market programs:

- i. Assigned Risk Plans
- ii. Joint Underwriting Associations (JUAs)
- iii. Reinsurance Facilities

b. (0.75 point)

Briefly describe the allocation of underwriting losses and expenses for each of the following:

- i. Assigned Risk Plans
- ii. JUAs
- iii. Reinsurance Facilities

c. (0.5 point)

Identify two types of exposures that may be covered by a Fair Access to Insurance Requirements (FAIR) plan.

SAMPLE ANSWERS AND EXAMINER'S REPORT

Candidates were expected to identify and describe how insurance companies would use a Write-Your-Own (WYO) arrangement and Direct Servicing Agent (DSA) to distribute NFIP policies.

Common errors include:

- Identifying the arrangement with no description
- Describing a pooling arrangement among companies
- Describing an assigned risk program where insurers must involuntarily write or service NFIP policies
- Describing how companies wrote a unique flood policy rather than an NFIP policy
- Stating that companies would write policies using NFIP rules/rates but assume all risk of loss with no NFIP backing or reinsurance

Part b

Candidates were expected to describe three types of premium subsidies built into the NFIP rating structure.

Common errors include:

- Describing subsidies that fall outside of the NFIP rating structure – such as post flood costs covered by FEMA, assistance from the Treasury, or the burden on taxpayers
- Describing issues with the actuarial soundness of the overall program or classes within the program as opposed to the premium subsidies
- Describing situations that would lead to lower than expected premiums – such as repeated losses, limited criteria for risk segmentation, buildings not reconstructed up to current code
- Describing penalties (such as penalties for not complying with standards) or other fees that help fund the program
- Stating the existence of subsidies for communities who participate in NFIP or who comply with minimum risk management standards (as this does not clearly distinguish communities that go above and beyond basic flood management guidelines from those that do)

FALL 2018 EXAM 6US, QUESTION 7

TOTAL POINT VALUE: 2.75

LEARNING OBJECTIVE: B1, B2

SAMPLE ANSWERS

Part a: 1.50 points

- **Assigned Risk Plans** - Voluntary market rejects high-risk drivers. All auto insurers doing business in the state are assigned their proportionate share of high-risk drivers based on the total volume of auto insurance written in the state.
- **JUAs** – Voluntary market rejects high-risk drivers. Agents/brokers forward application to the JUA or to a designated servicing insurer.

SAMPLE ANSWERS AND EXAMINER'S REPORT

<ul style="list-style-type: none">• Reinsurance Facilities –Insurers accept all auto insurance applicants, and if an applicant is considered a high-risk driver, the insurer has the option of assigning the driver's premiums and losses to the reinsurance facility.
Part b: 0.75 point
<ul style="list-style-type: none">• Assigned Risk Plans –Total underwriting losses and expenses for a given policy are the assigned insurer's responsibility as if the policy was written in the voluntary market.• JUAs –All auto insurers pay a proportionate share of total underwriting losses and expenses for all residual risks based on each insurer's share of voluntary auto insurance written in the state, a portion of which can be used to compensate the servicing insurers.• Reinsurance Facilities –All auto insurers doing business in the state share any underwriting losses and the expenses of the reinsurance facility in proportion to the total auto insurance they write in the state. The insurer continues to service the policy.
Part c: 0.5 point
Solution (any two of these): <ul style="list-style-type: none">• Urban areas that are susceptible to damage to property due to riots or civil commotion• Coastal properties that pose greater-than-average exposure to windstorm damage• Properties in some wooded areas subject to brush fires• sinkhole-susceptible properties
EXAMINER'S REPORT
Candidates were expected to know the major residual market mechanisms. They were expected to have an understanding of the objectives, operations, and effectiveness of insurance plans including: <ul style="list-style-type: none">• Assigned risk plans• Joint underwriting associations• Reinsurance facilities
Part a
Candidates were expected to differentiate between various types on state insurance programs with respect to how risks are placed in each. Common errors include: <ul style="list-style-type: none">• Failure to indicate the initial rejection by the voluntary market (ARP and JUA)• Stating that JUA's are assigned by market share• Describing a Reinsurance Facility as a traditional reinsurance treaty
Part b
Candidates were expected to differentiate on the claim settlement and loss/expense allocation for the identified programs. Common errors include: <ul style="list-style-type: none">• Describing the JUA and/or Reinsurance Facility as the market share of the association instead of the market share of the state• Describing the Reinsurance Facility as a standard insurance cession
Part c
Candidates were expected to identify the target exposures for a FAIR Plan.

SAMPLE ANSWERS AND EXAMINER'S REPORT

Common errors include:

- Listing only the coverage type (i.e. Riot or Wind) rather than describing the exposure
- Not providing a complete description which made the answer too broad or vague to address the intended question (i.e. Properties exposed to wind, rather than Coastal properties with above average exposure to windstorm damage)
- Listing criteria required by the FAIR plan that do not specifically describe the exposure and risk (i.e. buildings that are not properly maintained)
- Providing nonspecific answers (i.e. homeowners insurance)

FALL 2018 EXAM 6US, QUESTION 8

TOTAL POINT VALUE: 2.25

LEARNING OBJECTIVE: B

SAMPLE ANSWERS

Part a: 0.75 point

Federal Government

- Act as reinsurer of the insurance companies. It pays losses that are officially declared as applying for TRIA coverage up to a certain limit & attachment point
- Backstop for terror losses thru reinsurance agreement
- Pay for losses in excess of set thresholds resulting from terror attack
- Acts as a reinsurer
- Reinsurers the high layers of the coverage that provided by the private insurers.
- Partnership with private market for terrorism insurance

State Government

- Not involved, TRIA is a federal program
- No role
- Does not have a role other than normal regulation of the insurer
- Approves terrorism rates and forms
- Regulates rates

Private Insurer

- Have to offer TRIA Terrorism coverage and service policies
- Acts as primary insurer
- Writes TRIA & provides primary coverage
- Write and maintain policies. Share loss with federal government
- Provide coverage to consumers

Part b: 1.5 points

Bolded sample answers indicate unique subject responses, any three of which were required. Italicized sample answers are common variations on the unique response.

- **Ensure terrorism coverage is available which is accomplished by requiring private insurers to offer the coverage**