

EXAM 6 – UNITED STATES, FALL 2018

8. (2.25 points)

a. (0.75 point)

Briefly describe the role of each of the following under the Terrorism Risk Insurance Act of 2002 (TRIA):

- i. Federal government
- ii. State governments
- iii. Private insurers

b. (1.5 points)

Identify three goals of TRIA and briefly describe whether TRIA accomplishes each of these goals.

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	
<p>Federal Government</p> <ul style="list-style-type: none"> • 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 <p>State Government</p> <ul style="list-style-type: none"> • 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 <p>Private Insurer</p> <ul style="list-style-type: none"> • 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	
<p>Bolded sample answers indicate unique subject responses, any three of which were required. Italicized sample answers are common variations on the unique response.</p> <ul style="list-style-type: none"> • Ensure terrorism coverage is available which is accomplished by requiring private insurers to offer the coverage 	

SAMPLE ANSWERS AND EXAMINER'S REPORT

- *Federal government shares insured losses with private insurers to stabilize market with role of federal government depending on size of loss; Yes, coverage is available through multiple carriers.*
- *Establish a shared public/private program where the federal government acts as a reinsurance backstop in event of terrorist attack; accomplished.*
- **Preserve the state regulation of insurance - this program does not infringe on states' rights to regulate insurance**
 - *Maintain state regulation – does that by allowing states to regulate rates*
- **Create a temporary federal program of shared public and private compensation for insured terrorism losses to allow the private market to stabilize where role of federal loss sharing depends on size of insured loss. This hasn't fully been met since it has been renewed twice, so it is not really temporary.**
 - *Provide temporary relief to private insurers after 9/11 for terrorism risk. It did accomplish this but program is extended.*
 - *Provide a temporary backstop of protection while the private market stabilizes & gathers enough data to offer terrorism insurance in the private market – No. Program was meant to be temporary (began in 2002) but keeps being renewed; unlikely for private insurers to willingly offer affordable coverage if TRIA was not in place.*
 - *Give insurance (Private) time to collect data and establish standard markets. – TRIA has been renewed which accomplishes the continued goal, insurers still working on models due to lack of data.*
- **Protect consumers by requiring those insurers that offer commercial insurance covered by TRIA to provide terrorism insurance**
 - *Increase availability and affordability. TRIA achieved this because before TRIA almost no private insurer provided TRI products.*
 - *protect consumers by ensuring the availability and affordability of insurance for terrorism risks*
 - *Fill the unmet need after 9/11 for terrorism insurance; accomplished by offering coverage.*
- **Limit/prevent economic instability due to terrorism events—TRIA has accomplished this by reassuring companies that they will be covered in a terrorism event**
 - *Provide social benefit/need of limiting or mitigating any economic or business interruption – unsure if goal has been accomplished as TRIA has not been tested yet. In theory though this goal should be met given the public has peace of mind that their backstop does exist should the need arise.*

SAMPLE ANSWERS AND EXAMINER'S REPORT

- *To provide coverage in the immediate aftermath of a significant terrorist event that can destabilize the US economy. TRIA does this by providing insurance specifically relating to terrorism which the impact from an event is deemed significant.*

EXAMINER'S REPORT

Candidates were expected to understand the role of government and private insurers within TRIA. Candidates were also expected to know why TRIA was created and evaluate the effectiveness of the program.

Part a

Candidates were expected to describe the roles of the federal government, state governments, and private insurers in TRIA.

Common errors include:

- Not listing a role for state government
- Stating that state government had a role in setting rates. State departments of insurance approve and regulate rates; ensuring they not excessive, inadequate or unfairly discriminatory. They do not mandate specific rates.

Part b

Candidates were expected to describe three distinct goals of TRIA and evaluation whether TRIA has met each goal.

A common error was describing a goal without saying whether the goal was met or not

FALL 2018 EXAM 6US, QUESTION 9

TOTAL POINT VALUE: 2

LEARNING OBJECTIVE: B2, B3

SAMPLE ANSWERS

Part a: 1 point

Two of the following:

- Since the fund will only provide WC it will be specialized and thus able to understand the risks very well leading to more accurate pricing relative to risk
- States can offer cheaper coverages than private insurance because of the elimination of marketing cost
- States can offer more intensive rehabilitation program for injured workers. A social benefit.
- Lower premium due to reduced operation costs and agency's commission
- The government operates as a non-profit insurer, potentially reducing costs
- WC insurance is mandatory / compulsory, it needs to ensure the coverage is available
- State charges less premium because it has less advertising and acquisition cost
- Efficiency: the cost will be lower than private insurers because of non-profit nature