2. (2.25 points)

  a. (0.75 point)

  Identify three reasons why a state department of insurance might disapprove a rate filing.

  b. (0.5 point)

  Briefly describe two reasons why prior approval rate regulation may be appropriate for personal auto liability insurance.

  c. (0.5 point)

  Briefly describe two reasons why no file rate regulation may be appropriate for data breach liability coverage for large financial institutions.

  d. (0.5 point)

  Identify two services offered by insurance advisory organizations other than providing prospective loss costs used in rate filings.

SPRING 2019 EXAM 6US, QUESTION 2	
TOTAL POINT VALUE: 2.25	**LEARNING OBJECTIVE: A1**
SAMPLE ANSWERS	

Part a: 0.75 point

Any three of the following:
- Contrary to public interest
- Illegal
- Unfairly discriminatory
- Excessive
- Inadequate
- Fail to meet solvency standards
- Not licensed in state
- Political Pressure
- Price optimization, if illegal in state
- Lacking support
- Large premium swings

Part b: 0.5 point

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

- **The line of business is compulsory**
  - *In order to drive, the coverage must be purchased*
  - *A large percentage of the population purchase private passenger auto liability*
  - *High voter interest*
- **Buyers are not sophisticated**
  - *Ensure fair rates*
  - *Regulator has expertise*
  - *Complex rating algorithm*

Part c: 0.5 point

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

- **The line of business is optional**
  - *Low voter interest*
- **Buyers are sophisticated**
  - *Small limited data*
  - *Highly individualized risk*
  - *Regulators do not have the expertise*
  - *Innovation of coverage*

Part d: 0.5 point

Any two of the following:
- Developing rating systems

- Collecting and tabulating statistics
- Research topics important to members of the industry
- Providing a forum to members of the industry
- Lobbying
- Educating members of the industry
- Educating members of the public
- Educating regulators
- Monitoring regulatory issues
- Actuarial analyses
- Benchmarking against peers
- Data for entering a new line of business
- Frequency and severity trends
- Rating manuals
- Territorial analyses
- Filing support
- Reports on emerging risks
- Trend analyses
- Coverage forms

EXAMINER'S REPORT

The candidate was expected to demonstrate knowledge on rate filings and why different lines of business would be regulated differently.

Part a

Candidates were expected to provide three reasons a rate filing would be disapproved.

A common mistake was stating the rate is discriminatory instead of unfairly discriminatory. Variations in prices that are in line with expected costs are discriminate between classes of business. Unfair discrimination is prohibited by law and would lead to a disapproval.

Part b

Candidates were expected to demonstrate knowledge why one line of business has different rate regulation than another line of business. They needed to recognize that the insurance purchaser was the public and then provide an example of how the regulator could protect the consumer.

A common mistakes was not recognizing the lower level of insurance expertise of the general public.

Part c

Candidates were expected to demonstrate knowledge why one line of business has different rate regulation than another line of business. They needed to recognize the insurance purchaser was a sophisticated company and then provide an example or reason why the company did not need the protection of a regulator.

A common mistake was not stating how or why the large financial institution did not need the

regulator's protection.

Part d

Candidates were expected to demonstrate knowledge of the services offered by an insurance advisory organization.

Common mistakes include:
- Providing examples of functions completed by regulators, such as:
  - Compliance review
  - Solvency monitoring
  - Residual market claim management
  - Market conduct examinations
- Expense benchmarks; advisory organizations provide the loss component of rates, which exclude expenses.
- Financial health ratings; this is the function of rating agencies

SPRING 2019 EXAM 6US, QUESTION 3	
TOTAL POINT VALUE: 2	**LEARNING OBJECTIVE: A2**
SAMPLE ANSWERS	

Part a: 0.75 point

Any three of the following:
- Rapid premium growth
- Inadequate Rates
- Unexpected expenses such as catastrophes
- Lax controls over managing general agents
- Investing is assets that are too risky
- Reinsurer insolvency/uncollectable reinsurance
- Bad management, such as engaging in illegal actions
- Fraud
- Mass Torts, resulting in unexpected adverse deviation.
- Impairment of investments in the event of recession
- Poor rate/reserving practices
- Lack of controls in underwriting
- Inadequate capitalization

Part b: 1 point

Sample 1
- Fact Finding: regulator analyzes financial statements and determines which stage of intervention is necessary, if any
- Mandatory Corrective Action: regulator determines policy holders are at risk and can intervene to restrict new/renewal business, etc.
- Administrative Supervision: insurer is required to get regulator approval to do almost anything including writing new business, getting reinsurance, changing management, etc.