3. (2 points)

   a. (0.75 point)

      Identify three reasons for insurer insolvencies.

   b. (1 point)

      Briefly describe the four stages of regulatory intervention for a financially troubled insurer.

   c. (0.25 point)

      Briefly describe one reason why regulators may be slow to intervene with a financially troubled insurer.

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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.

- Receivership: regulator takes control of company and decides to rehabilitate or liquidate

Sample 2
- Administrative supervision – will be required to get commissioner approval for many actions
- Mandatory correction – required to make certain corrective actions by regulators
- Rehabilitation – receiver safeguards assets, prepares for liquidation
- Liquidation – receiver sells off assets, prioritizes creditors

Sample 3
- Company action level – the company devises their own plan of next steps
- Supervision – regulators monitor the company to see if they are improving
- Mandatory regulatory action – the regulator steps and the insurer loses control of decision making
- Rehabilitation – regulators help get the company back on their feet, or prepare for liquidation

Sample 4
- Regulatory action – regulator can limit new business, for example
- Receivership – commissioner takes control of the insurance company
- Rehabilitation – investors are brought in to help the company stay as a going concern
- Liquidation – company's assets are liquidated to by claims and the insurer goes out of business

Part c: .25 point

Any one of the following:
- Regulators may see the insurer as an important employer and part of the local economy and not want to adversely affect unemployment or the economy as a whole
- There are too many insurers and the regulators don't have enough resources to identify the troubled insurer
- Regulatory forbearance – intervention could damage the company's reputation and not allow it to recover; adverse effects on local economy
- Regulators may believe the insurer's issue is the result of a one-time event such as a catastrophe, and the company can recover on their own
- Regulators use data that are updated infrequently (e.g. the annual statement), so it may take time to determine that the insurer is in financial trouble
- The insurer may have politically powerful connections, making it difficult for the regulator to intervene – Regulatory Capture
- Regulators may not want to overreact and lose trust and credibility in the eyes of the public, companies and policyholders
- Once it is known that a company is in financial difficulty, it becomes harder to help the company, exacerbating the issue, and making insolvency more likely

EXAMINER'S REPORT

Candidates were expected to demonstrate knowledge related to insurer insolvencies and the

regulatory interventions associated with troubled insurance companies.
Part a
Candidates were expected to identify three reasons for insurer insolvencies. A common mistake was providing a response that lacked direct causal connection to a subsequent insurer insolvency. For example "entering into a new line of business" does not have a causal connection to insolvency without additional information being provided.
Part b
Candidates were expected to discuss four stages of regulatory intervention. A common mistake was providing a description that was inconsistent with the item listed. For example, listing "rehabilitation" then explaining liquidation.
Part c
Candidates were expected to describe one reason that regulators would be slow to intervene with a financially troubled insurer. Common mistakes included: • Stating that the regulators are lax because the guarantee funds act as a backstop. An insolvency that requires a guarantee fund payout may result in assessments to other insurers, which is a concern for regulators. • Stating that regulators have no authority to intervene. There are specific regulatory periods that provide regulators the authority to intervene.

SPRING 2019 EXAM 6US, QUESTION 4	
TOTAL POINT VALUE: 2	**LEARNING OBJECTIVE: A4**
SAMPLE ANSWERS	
Part a: 0.75 point	
Sample responses for circumstances: • Paul was arrested for selling insurance in his home state of Virginia on behalf of insurers domiciled in New York because he was denied a license to sell insurance since the insurers had not deposited the bond required from Virginia. • Paul was a VA resident looking to sell insurance for a NY insurer who did not deposit the necessary capital with VA to operate in the state. Paul sold anyway and was arrested. • Paul applied to sell New York based insurance policies in Virginia. The company had not submitted the required capital in Virginia, so Paul's license was denied. He sold the policies anyway and as convicted. • Paul tried to sell insurance for a foreign company and was arrested for not being properly licensed. *Sample responses for results:* • Supreme Court said insurance was not interstate commerce and so states can regulate.	