7. (2.5 points)

   a. (1 point)

      Briefly describe the placement of insureds and the allocation of losses for each of the following programs:

      i. Assigned Risk Plans

      ii. Joint Underwriting Associations

   b. (1 point)

      Describe how each of the following programs provides stability for insurers in the voluntary market:

      i. Reinsurance Facilities

      ii. Terrorism Risk Insurance Act of 2002 (TRIA)

   c. (0.5 point)

      Describe how losses are shared among program participants under TRIA.

CONTINUED ON NEXT PAGE

much insurers can pay per year).
Part c
Candidates were expected to identify weaknesses of having a guaranty fund and/or reasons a guaranty fund should be eliminated. Common mistakes include: • Explaining that either insolvencies rarely happen or that there is sufficient solvency regulation and therefore a guaranty fund should be eliminated. Since insolvencies can still occur, candidates needed to suggest that a guaranty fund could be eliminated for these reasons if it is pre-funded. • Describing insurers relaxing underwriting standards and/or lowering premiums without linking this to a market distortion or customer behavior (selecting insurer without regard for financial strength or risk of insolvency).

SPRING 2019 EXAM 6US, QUESTION 7	
TOTAL POINT VALUE: 2.5	**LEARNING OBJECTIVES: B1, B2**
SAMPLE ANSWERS	
Part a: 1 point	
Sample response for part (i): • Assigned to an insurer in the state, the proportion of assignment is based on written premium market share of the Insurer. • All premiums and losses are retained by the assigned insurer for their assigned members. *Sample response for part (ii):* • After rejection insureds are placed by agent/broker into a servicing provider or assigned a servicing provider by the JUA. • All profits/losses (after servicing provider fees) are apportioned by written premium of all personal auto carriers.	
Part b: 1 point	
Sample 1 Part (i): • Allows insurers to write/accept all risk and cede high (aka potentially volatile) risks to the re Facility • Which pools those prem and losses (less operating expense) with others insurers to stabilize the volatility at the individual level because $\sum Var(X_i) \geq Var(\sum X_i)$ Part (ii): • It Reinsures losses at (80-85%) above the "Deductible" of 20% eligible commercial lines DWP.	

- In the event of a major terrorist act and insure Before TRIA could be forced to insolvency but after losses are limited premiums are retained by the insurer and losses indemnified after recouped over 10 years.

Sample 2
Part (i):
- Reinsurance Facility can charge actuarially appropriate rates (in aggregate) that may not be possible in the voluntary market.
- Insurers can cede any policies it does not believe it can underwrite profitably to the facility.

Part (ii):
- Insurers must offer terrorism coverage, but government automatically provides reinsurance over a certain threshold.
- When loss occurs government pays a portion and spreads the recoupment of loss dollars over several years, so the impact is not relegated to an extreme shock loss in on event year.

Part c: 0.5 point

Sample 1
- They are not shared among participants. Losses must be high enough for all participants to be certified but after losses are shared between insurers and the government and reclaimed by the government from insurers through recoupments.

Sample 2
- 80% of losses over a deductible of 20% of insurer premium is covered by the federal government. Losses are then recouped over several years at markup.

Sample 3
- The government shares losses with insureds above a threshold.

Sample 4
- The feds pay a quota share of 85/15 and then recoup these losses from the industry over many years

EXAMINER'S REPORT

Part a

Candidates were expected to know the process an insured would go through to arrive in both the ARP and the JUA.

Common mistakes include:
- Not explaining how policies were assigned to the market under an ARP or JUA. For example, just stating that an ARP assigned risks to insurers without saying it was based on written premium.
- Stating that an insured could apply directly to a JUA; risks are forwarded to the JUA via a broker or agent.

Part b
Candidates were expected to explain how reinsurance facilities and TRIA provide stability for insurers in the voluntary market. Common mistakes include: • Basing a response on an excess of loss reinsurance contract rather than a reinsurance facility. • Providing only one side of the reinsurance facility (i.e. either that risks could be ceded or losses were shared rather than describing the entire process.) Both components were needed to explain how stability is brought to the market. • Stating "TRIA is Government Reinsurance" without explaining the type of loss that is taken by the government and why that would stabilize the market.
Part c
Candidates were expected to describe who the loss sharing participants were and the basic type of sharing that occurred. Common mistakes include: • Responses that stated wrong features (for example, stating that the quota share kicks in at $5 million.) • Stating "TRIA is reinsurance" which did not give enough information on who the parties involved in the transaction were and what type of "reinsurance" was being provided.

SPRING 2019 EXAM 6US, QUESTION 8	
TOTAL POINT VALUE: 2	**LEARNING OBJECTIVES: B1, B2**
SAMPLE ANSWERS	
Part a: 0.75 point	
<u>*Sample responses for part (i)*</u> • Workers compensation is mandatory; state fund ensures availability to all • Some employers were unable to obtain coverage in the private market; since WC insurance is mandatory, they needed alternatives or would go out of business • WC is a mandatory insurance. Some high risk employers might not be able to find coverage in private market • WC is mandatory for most employers, and there is a fear that they could be out of business if they are denied coverage • Since WC is compulsory, state funds are making sure there is availability • To help with coverage availability to employers because WC is a compulsory insurance • Workers compensation is compulsory, the fund addresses the fear of business owners that they may be forced out of business if they cannot obtain needed coverage • To ensure that WC insurance is available to employers due to fear they could be put out of business if denied by private insurers, since WC insurance is compulsory • Some riskier occupations would have availability issues. WC state funds were created in order to alleviate this issue	