

6. (2 points)

a. (1 point)

Describe the circumstances of the Paul v. Virginia court case, briefly describe the decision in the case, and briefly describe its impact.

b. (0.5 point)

Briefly describe how each of the following impacted the applicability of the Sherman Antitrust Act to insurers:

i. South-Eastern Underwriters Association decision

ii. McCarran-Ferguson Act

c. (0.5 point)

Other than antitrust activities, identify two situations where federal regulation continues to apply to insurance after the passage of the McCarran-Ferguson Act.

## SAMPLE ANSWERS AND EXAMINER'S REPORT

- Listing examples that were common to both requirements.
- Not providing three differences
- Providing an example too similar to another answer such as:
  - RBC does not consider business strategy or internal governance controls
  - RBC does not include any management input
- Stating something was unique for RBC that should have been for the rating agency requirements or vice versa.

### **Part d**

Candidates were expected to understand that the RBC action level had changed from Authorized Control Level to Mandatory Control Level and that regulators were now required to take corrective action, such as rehabilitate or liquidate the insurer. References to the insurer being placed into a receivership were accepted.

Common errors include:

- Not understanding that the RBC Action Level had changed.
- Not mentioning that regulatory action was required.
- Not mentioning what type of regulatory corrective action was taken.

### **FALL 2019 EXAM 6U, QUESTION 6**

**TOTAL POINT VALUE: 2**

**LEARNING OBJECTIVES: A4**

### **SAMPLE ANSWERS**

#### **Part a: 1 point**

##### Sample 1

- Circumstances: Paul wanted to sell insurance in VA on behalf of an insurer domiciled in NY, but his application was denied. He sold insurance anyway and was arrested.  
Decision: The court ruled in favor of VA and said that insurance did not constitute interstate commerce.  
Impact: Insurance was regulated at the state level.

##### Sample 2

- Paul was selling insurance in VA from a NY insurer without proper license. Supreme Court upheld his arrest, insurance was deemed not interstate commerce, and insurance was left to state regulators.

##### Sample 3

- Paul wanted to sell insurance policies in his home state of VA for NY insurers, who had not deposited necessary foreign insurer bonds. He sold policies anyways, got arrested, and appealed to Supreme Court. Result was Paul not allowed to sell policies because insurance is a local product that states could regulate. Therefore, regulation of insurance left up to states.

#### **Part b: 0.5 point**

Sample Responses for SEUA:

## SAMPLE ANSWERS AND EXAMINER'S REPORT

- After SEUA decision the Sherman Antitrust Act applied to insurers.
- After SEUA decision, Sherman Act was applicable to insurance. It prohibits collusion in setting rates to get monopoly power.
- The decision led to the Sherman Antitrust Act being applied in its entirety. It prevented acts of collusion or forming a monopoly and it prevented boycott, coercion, or intimidation.
- Sherman Antitrust Act continues to apply to coercion, collusion, intimidation, and boycott on insurance.
- Sherman Act applies to insurance since insurance is regulated at the federal level.

### Sample Responses for McCarran-Ferguson Act

- McCarran-Ferguson upheld Sherman Act as applying to insurance for boycott, coercion, intimidation.
- Determined that Sherman still applies to insurance but states now regulate as it is in the public's best interest.
- It did not change the application of the Sherman Act to insurance in regards to boycott, coercion, or intimidation but still allow insurers to set rate in concert as long as this did not hinder competition.

### **Part c: 0.5 point**

#### Any of the following two responses:

- If states aren't regulating insurance
- Federal laws specifically pertaining to insurance
- If state law contradicts federal law
- Tax laws
- OSHA laws
- Regulation of securities/ SEC
- ERISA (Employee Retirement Income Security Act)
- Labor relations
- Civil Rights Act
- Age Discrimination in Employment Act
- Older Workers Benefit Protection Act
- Americans with Disabilities Act
- FBI
- Environmental Protection Act (EPA)
- Interstate Commerce Commission (ICC)
- Dodd-Frank Act/ FIO
- Systematically important financial institutions (SIFI)

### **EXAMINER'S REPORT**

Candidates were expected to understand the outcome and implication of landmark decisions including Paul v. Virginia, the South-Eastern Underwriters Association decision, and the McCarran-Ferguson Act, and the situations when federal vs. states regulate insurance activities.

### **Part a**

## SAMPLE ANSWERS AND EXAMINER'S REPORT

Candidates were expected to understand the Paul v. Virginia case, including the impact of states regulating insurance.

Common errors include:

- Not mentioning requiring a license or foreign insurer bond to be able to business in another state
- Missing the impact of state regulation of insurance

### Part b

Candidates were expected to understand if or how Sherman Antitrust Act applies under different situations (state or federal regulation).

Common errors include:

- Not able to explicitly mention if or how Sherman apply correctly

### Part c

Candidates were expected to understand when federal regulation applies other than Antitrust activities.

Common errors include:

- Stating Antitrust Act
- Examples of federal intervention but not regulation of insurance, such as NFIP and TRIA
- Gramm-Leach-Bliley (GLB) because states continue to have primary authority over insurance

### FALL 2019 EXAM 6U, QUESTION 7

TOTAL POINT VALUE: 2.25

LEARNING OBJECTIVES: B2, B3

### SAMPLE ANSWERS

Part a: 0.75 point

Any one of the following for Private Insurers:

- Act as primary insurer
- Handles the transactions of premium & claims
- Provide coverage to consumers
- Are the group that is responsible for indemnifying the consumer's claims
- Servicing carriers

Any one of the following for the Risk Management Association (RMA):

- Will assess how the crop coverage is performing and whether any changes need to be made
- They help monitor and control risks, working with private insurers
- Offers subsidies to farmers
- Helps farmers prevent losses (farming techniques)
- RMA administers rules to prevent adverse selection