

EXAM 5, FALL 2017

14. (1.5 points)

Given the following information about a homeowners insurance loss:

- Face amount of policy = \$300,000.
- Value of property = \$500,000.
- Coinsurance penalty = \$22,000.
- Indemnity payment = \$84,000.
- There is no deductible.

a. (0.5 point)

Calculate the required coinsurance percentage.

b. (1 point)

Identify two homeowners insurance to value initiatives insurers could implement and briefly describe how each initiative encourages insurance to full value.

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 14	
TOTAL POINT VALUE: 1.5	LEARNING OBJECTIVE(S): A10
SAMPLE ANSWERS	
Part a: 0.5 point	
<p><u>Sample 1</u> $84000 + 22000 = 106k \text{ loss}$</p> $\frac{300k}{500k \times (\text{ratio})} = \frac{84k}{106k}$ <p>Coinsurance = .757</p> <p><u>Sample 2</u> $\frac{84}{84 + 22} = \frac{300}{500r}$ $r = 75.7\%$</p>	
Part b: 1 point	
<p>Any two of the following:</p> <ul style="list-style-type: none"> • Provide guaranteed replacement cost if insured to value • Property Valuation Software: Insurers can analyze their inforce homeowners portfolio through a property valuation software to identify underinsured properties and inform our customers. • Perform home inspections and make compulsory for insured to insure homes to full value • Inflation Guard – Including an inflation guard in the rating program would automatically increase coverage, say 5%, each year. This encourages insurance to value because coverages automatically increase each year with inflation. • Marketing - Keep the homeowners aware of the benefit of insurance to value • Educate the insureds on the benefits of being insured to value (that is they would be fully indemnified after a loss) • education – teach consumers that underinsuring their homes puts them at risk in case of large or total losses • Coinsurance clauses limit payments on partial losses which incentivizes insuring to value to avoid the coinsurance penalty. 	
EXAMINER'S REPORT	
<p>Candidates were expected to understand the coinsurance formula and demonstrate knowledge of methods to resolve insurance to value coverage issues.</p>	

SAMPLE ANSWERS AND EXAMINER'S REPORT

Part a

Candidates were expected to demonstrate how to calculate the required coinsurance percentage given other information about the policy and loss.

Common errors included:

- Using the Indemnity payment as the amount of loss.
- Providing only the apportionment ratio rather than the required coinsurance percentage.
- Failing to show all calculations for the amount of loss, apportionment ratio, coinsurance requirement and/or required coinsurance percentage.

Part b

Candidates were expected to demonstrate knowledge of insurance to value coverage issues by providing two different initiatives that an insurer could reasonably implement that would encourage insurance to full value. They were also expected to be able to explain how each initiative would encourage insurance to full value.

Common errors included:

- Describing an initiative without explaining how it encourages insurance to full value.
- Providing an underwriting initiative that depends on foreknowledge of home replacement value, which is generally unknown without a loss or some sort of initiative to first determine the home replacement value.
- Providing a rating initiative that not only depends on foreknowledge of home value, but would also depart from the actuarial standard that a rate be based on an estimate of future costs, not as an inducement for a particular insured behavior.
- Describing the impact of limits on total losses, which is a basic policy feature that is designed to limit loss exposure for the insurer rather than encourage insurance to full value.
- Describing the impact of underinsurance on the insurer and/or insured rather than providing an initiative to help prevent it.