

EXAM 6 – CANADA, FALL 2016

8. (3.5 points)

Overland flood coverage has only recently been optionally offered to consumers by several private insurance companies in Canada.

a. (1.5 points)

Describe three reasons for the historical limited availability of flood insurance in Canada.

b. (0.5 point)

Explain one precondition that is essential to establishing a strong flood risk management culture which is not included within your response to part a. above.

c. (0.5 point)

Explain why government involvement in a national flood program may still be needed to supplement the flood coverage offerings from private insurers.

d. (1 point)

Flood coverage for personal property has typically not been offered by private insurers in Canada. Describe two reasons why insurers have historically paid for a large portion of these losses.

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EXAM 6C FALL 2016 SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 8	
TOTAL POINT VALUE: 3.5	LEARNING OBJECTIVE(S): B1, B2
SAMPLE ANSWERS	
Part a: 1.5 points	
<p><u>Sample 1</u></p> <ul style="list-style-type: none"> • Poor flood mapping – inconsistent across jurisdictions, not detailed enough • Adverse selection – if offered as optional coverage, generally high risks would want coverage, leading to high premiums → high premiums would reduce insureds willing to pay for coverage except those at highest risk → result in even higher premiums • Lack of infrastructure/planning – flood prone areas still being highly developed, leading to higher risk or large losses from floods, restricting land usage would minimize impact and encourage mitigation <p><u>Sample 2</u></p> <ul style="list-style-type: none"> • Flood risks don't lend themselves to the economics of insurance. It leads to adverse selection because the fundamental insurance principle of diversification through risk pooling cannot be effectively done • Flood losses are often directly related to under-investment in public infrastructure, poor asset management, obsolete building codes and ineffective land use planning, government needs to fulfill their duty to improve risk planning and mitigation • Canada lacks effective flood hazard maps, which is a fundamental risk assessment tool for pricing, etc. 	
Part b: 0.5 point	
<p><u>Sample 1</u> Public Awareness – current lack of awareness by public, educate on how to mitigate flood losses</p> <p><u>Sample 2</u> One essential precondition is that there should be limited recourse to government revenue to finance post-disaster compensations</p>	
Part c: 0.5 point	
<p><u>Sample 1</u></p> <ul style="list-style-type: none"> • Improve flood mapping – insurers can use this information to better price risks • Infrastructure planning – government can restrict expansion into high flood risk zones to prevent additional high risk insureds and losses in major events <p><u>Sample 2</u></p> <ul style="list-style-type: none"> • Because actuarially sound premium may be unaffordable, government involvement is needed to help subsidize high risk, develop up-to-date flood maps, invest in flood defences, etc. <p><u>Sample 3</u></p> <ul style="list-style-type: none"> • Governments may be needed to provide reinsurance coverage to insurer if the loss from flood is very high and that the insurer may not be able to pay all the claims • Governments may also be needed to provide accurate hazard flood maps to insurers to determine high risk zones in their pricing models 	

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Part d: 1 point

- Personal property policies usually have sewer backup coverage. Often water from sewer and overland damage is not distinguishable, therefore insurer required to pay claim
- Reputation to the public – If insurer denies many claims in a flood event, it likely will take significant reputational hit, causing insureds to look elsewhere for insurance, leading to claims paid that may not have been covered

EXAMINER'S REPORT

In general, candidates were expected to demonstrate knowledge of the interaction between the government and private insurance companies in flood programs with a focus on Canada.

Part a

Candidates were expected to describe why flood insurance has historically been unavailable to insurance customers in Canada.

Common mistakes included:

- Providing fewer than three reasons
- Stating the same reason more than once, but listing those reasons separately with slightly altered wording
- Identifying a reason, but not describing it

Part b

Candidates were expected to provide an example of what should be done to establish a strong flood risk management culture and make private flood insurance successful in Canada.

Common mistakes included:

- Restating a reason that was mentioned in part a. such as investments in public infrastructure or improved flood hazard mapping
- Identifying a precondition, but not describing it
- Not distinguishing a precondition (part b.) vs. the reason for historical limited availability of flood insurance in Canada (part a.).

Part c

Candidates were expected to describe how governments are likely still needed in some fashion even if flood insurance is largely offered through the private market. Candidates were expected to demonstrate a general understanding of why government involvement may be needed.

There were many variations of valid responses that were accepted for full credit including: investments in infrastructure, investments in flood defenses, restrictions on building codes and zoning, promoting or delivering public education and awareness of flood risk, acting as a reinsurer, assisting with insuring high risk properties, addressing limited recourse to government revenue to finance post-disaster compensation.

A common mistake was providing a very brief response that did not adequately describe how the government would still be involved in a national flood program.

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Part d

Candidates were expected to explain why private insurers have historically paid flood losses when they were not covered by the underlying policies.

Common mistakes included:

- Providing a reason, but not describing it
- Providing fewer than two reasons