

EXAM 6 – CANADA, SPRING 2018

9. (3 points)

a. (1 point)

Identify four variables used by the IBC to categorize the approach to the financial management of flood risk.

b. (2 points)

Based on the variables in part a. above, justify a flood program that would be available, affordable and financially sustainable.

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EXAM 6C SPRING 2018 SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 9	
TOTAL POINT VALUE: 3	LEARNING OBJECTIVE(S): B3
SAMPLE ANSWERS	
Part a: 1 point	
<p><u>Sample 1</u></p> <ul style="list-style-type: none"> • Optional or mandatory coverage • Publicly administered vs privately administered • Stand-alone coverage vs bundled coverage • Subsidization of high risk by tax payers or policyholders <p><u>Sample 2</u></p> <ul style="list-style-type: none"> • Governments role in program (insurers or facilitator) • Pricing (government mandated or risk based) • Package (bundled or optional) flood insurance • Coverage (voluntary or mandatory) 	
Part b: 2 points	
<p><u>Sample 1</u></p> <p>To be available, the flood program must be at least a combination of public and private insurance or entirely public program since private insurer would not be willing to offer flood insurance alone due to the adverse selection that occur (only high risk people will buy the premium). Also, to be affordable the program must also be helped by the public since government can help to subsidize high risk property with fund or tax revenue; as well as being an bundled coverage since bundled coverage tend to redistribute flood price among a variety of coverage which lead to less costly program than optional flood, so help affordability. To be sustainable, the program needs implementation assistance of government in producing flood maps and investment in infrastructure, but use a risk based premium so people have incentive to mitigate loss to reduce their premium. Finally, to be financially sustainable, the mandatory coverage helps to reduce the effect of adverse selection since it is not only high risk insureds who will buy the coverage.</p> <p><u>Sample 2</u></p> <ul style="list-style-type: none"> • Government as facilitator/enablers, ensures affordability by reinsurance for high risk + investment in infrastructure/maps • Risk based price, so incentive to move to low risk areas & ensure sustainability of program for insurers, & availability as insurers more willing to participate • Bundled package, reduces adverse selection allows low risk areas to subsidize high risk areas to maintain affordability • Mandatory coverage ensures everyone is covered, ensuring enough premiums can be collected so program is available, & sustainable as guaranteed continued participation. 	
EXAMINER'S REPORT	
<p>Candidates were asked to evaluate the effectiveness of a hypothetical government and insurance industry flood program. Overall, candidates were able to identify the four variables that categorize the approach however, struggled with the justification and evaluation required for part b.</p>	

EXAM 6C SPRING 2018 SAMPLE ANSWERS AND EXAMINER'S REPORT

Part a

Candidates were expected to identify four of six variables used by the IBC to categorize the approach to the financial management of flood risk.

Common errors included:

- Not identifying both contradictory aspects of each variable. For example, mentioning risk-based pricing but not government-mandated pricing.
- Not answering the question. For example, common wrong answers were: use of flood map, customer's awareness of flood risk, government's infrastructure of flood prevention.

Part b

Candidates were expected to justify their preferred designs based on the four variables in part a. and tie them back to availability, affordability and sustainability.

Common errors included:

- Justifying the selected flood program design without tying back to availability, affordability and sustainability.
- Providing no justification for the selected flood program design.