

9. (3.5 points)

a. (0.5 point)

Briefly describe two advantages of bundling flood insurance with other coverages.

b. (1 point)

Other than optional vs. bundled coverage, identify four considerations in the financial management of flood risk.

c. (2 points)

Describe four preconditions for establishing a strong flood risk management culture.

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QUESTION 9	
TOTAL POINT VALUE: 3.5	LEARNING OBJECTIVE(S): B2, B3
SAMPLE ANSWERS	
Part a: 0.5 point	
<p><u>Sample 1</u></p> <ul style="list-style-type: none"> • Reduce adverse selection since not only high-risk insured will purchase flood insurance • Make flood insurance more affordable <p><u>Sample 2</u></p> <ul style="list-style-type: none"> • It favors higher take up rate leading to more people being covered in the event of a flood • Promote affordability of flood insurance with low risks subsidizing high risks 	
Part b: 1 point	
<p><u>Sample Answers (any four of the following)</u></p> <ul style="list-style-type: none"> • Private vs publicly administered programs • Voluntary vs mandatory insurance take-up • Risk-based vs government mandated pricing • Policyholder funded vs taxpayer funded subsidization of high-risk properties (or neither) • Government as insurer vs enabler of insurance 	
Part c: 2 points	
<p><u>Sample 1</u></p> <ul style="list-style-type: none"> • Accurate and up-to-date maps for flood planning and risk management • Targeted and on-going investment in flood defenses and infrastructures • Widespread risk awareness and a sound understanding by all stakeholders of the physical and financial damages of flood risk • Limited resource to government funding for post disaster-compensation to ensure individual incentives for risk mitigation <p><u>Sample 2</u></p> <ul style="list-style-type: none"> • Effective flood maps: accurate in order to understand the risk and help make decisions on mitigation investment 	

- Infrastructure: investment in infrastructure to maintain strong flood defences
- Awareness: policyholders has to be aware of risk mitigation and financial management for flood
- Risk mitigation incentives: limited recourse to government revenue to finance post-disaster compensation

EXAMINER'S REPORT

Candidates were expected to understand the objectives, operations, and effectiveness of flood insurance.

Part a

Candidates were expected to describe two advantages of bundling flood insurance.

Common errors included:

- Identifying low risks subsidizing high risks as an advantage without stating that premium will be more affordable
- Repeating the same topic in different wording

Part b

Candidates were expected to understand the different considerations of the financial management of flood risk and to identify four beside the "Optional vs bundled coverage"

Common errors included:

- Providing fewer than four considerations
- Providing incomplete answers such as "rates"

Part c

Candidates were expected to understand the importance of the role of the government to provide appropriate conditions for managing flood risks even though the private insurance remains the main provider. They were expected to address four topics:

- Flood maps

- Infrastructure / investment
- Awareness
- Diminished government funding

Common errors included:

- Repeating the same topic twice using different words
- Providing fewer than four preconditions
- Identifying a topic without describing it