

11. (4 points)

a. (2 points)

For each insurance program below, fully describe the roles of the government and private industry in providing coverage in the United States:

- i. Flood
- ii. Terrorism

b. (2 points)

Design a financial management model for Canadian flood risk to maximize take-up rates and affordability. Fully support your design.

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 11	
TOTAL POINT VALUE: 4	LEARNING OBJECTIVE(S): B2, B3
SAMPLE ANSWERS	
Part a: 2 points	
<p>i. Flood</p> <p><u>Sample</u></p> <ul style="list-style-type: none"> • Insurance coverage is standalone coverage • It's underwritten based on a government set pricing and rules • All claims are covered by government • Private insurers are only facilitating <p>ii. Terrorism</p> <p><u>Sample</u></p> <ul style="list-style-type: none"> • Can be standalone or bundled with property insurance • Private insurers write the business and settle the claims • Private insurers cover terrorism claims up to a specified limit • Government acts as a reinsurer -> only covers losses for certified terrorism events and only in excess of the imposed limit 	
Part b: 2 points	
<p><u>Sample</u></p> <ul style="list-style-type: none"> • Bundle coverage with homeowners insurance -> this will ensure subsidization between low and high risk insureds • Use risk-based pricing – this will make customers more likely to implement risk mitigation initiatives • Make it mandatory for all properties -> this will maximize take-up rates and ensure loss sharing • Make government an enabler -> make sure there are accurate flood maps used for risk management and pricing + invest in flood defense infrastructure • Subsidization by other customers not taxpayers under this design 	
EXAMINER'S REPORT	
Candidates were expected to demonstrate a basic understanding of the US flood and terrorism programs and to demonstrate a strong understanding of insurance program design.	
Part a	
Candidates were expected to describe the relationship between private and government for flood and terrorism insurance program in the US in full details.	
Common errors included:	
<ul style="list-style-type: none"> • Incorrectly describing the current relationship 	
Part b	
Candidates were expected to identify criteria pertaining to an insurance program design and to link these criteria to the impact on affordability or take up rates.	

SAMPLE ANSWERS AND EXAMINER'S REPORT

A common error included:

- Not linking the criteria with the impact on either affordability or take up rates