

8. (2 points)

For the Federal Crop Insurance Program and National Flood Insurance Program:

a. (1 point)

Describe the risk transfer process of each program.

b. (1 point)

Briefly describe two criticisms of each program.

SPRING 2017 EXAM 6U SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 8	
TOTAL POINT VALUE: 2	LEARNING OBJECTIVE(S): B2, B3
SAMPLE ANSWERS	
Part a: 1 point	
Sample answers include:	
<u>Crop Insurance Program</u>	
<ul style="list-style-type: none"> • Crop is written and serviced by private companies who cede premium and loss to Federal Government; Fed acts as reinsurer. • The Federal Crop Insurance Program acts as a reinsurer to insurers in the private market. Insurers write the policies and the program reinsures a portion of the risk. • Crop: private market sells and services the risks while Federal Government reinsures. Federal Government also provides subsidies for premium and also reimburses portion of administrative expenses for insurers. 	
<u>National Flood Insurance Program</u>	
<ul style="list-style-type: none"> • NFIP is written by Federal Government; Fed acts as primary insurer. • The NFIP is a "Write Your Own" program where private insurers write flood policies and the NFIP fully reinsures all the flood risk written. • Flood: Private market sells and Federal Government reinsures the risk. 	
Part b: 1 point	
Sample answers include:	
<u>Crop Insurance Program</u>	
<ul style="list-style-type: none"> • Risks are not shared proportionally; private insurers have been able to profit while the government losses money • Federal government has needed to pass disaster recovery bills • Did not provide enough coverage • Encourages overproduction • Low participation rates 	
<u>National Flood Insurance Program</u>	
<ul style="list-style-type: none"> • No enforcement of mandatory coverage by federally backed mortgage companies • FEMA provides support to those who do not purchase coverage • Rates are not adequate • Flood maps are not accurate • Benefits are disproportionately spread to the wealthy • Hazard mitigation isn't incorporated into the program • Program in debt • Adverse selection, only the people who need the coverage the most purchase the coverage • Encourages building or rebuilding in high hazard areas • Insurance agents do not market NFIP policies 	
EXAMINER'S REPORT	
Candidates were expected to understand the risk transfer process of the Federal Crop Insurance	

SPRING 2017 EXAM 6U SAMPLE ANSWERS AND EXAMINER'S REPORT

Program and the National Flood Insurance Program, and state criticisms of each program.

Part a

Candidates were expected to know the risk transfer process for each program, and know the government's role.

Common errors include:

- Stating the Federal Crop Insurance Program is written directly by the federal government rather than through a commercial carrier, then reinsured by the federal government
- Stating that private insurers underwrite NFIP policies. The NFIP is a take all comers program.

Part b

Candidates were expected to state two criticisms of each program.

The most common error was to only providing one criticism per program.