

7. (3 points)

a. (1.5 points)

Describe three reasons for government participation in insurance.

b. (1.5 points)

Identify three levels of government involvement in the provision of insurance and, for each level identified, provide an example of a government program.

Common errors included candidates stating the reinsurance facility kept the profits and candidates stating that insurers shared in the operating profits based on the amount they ceded to the reinsurance facility.

### QUESTION 7

**TOTAL POINT VALUE: 3**

**LEARNING OBJECTIVES: B1, B2**

### SAMPLE ANSWERS

**Part a:** 1.5 points

Any three of the following reasons:

- Filling insurance needs unmet by private insurance
- Compulsory purchase of insurance
- Convenience
- Greater efficiency or government expertise
- Social purposes
- Regulatory purposes

#### Sample Responses for “filling insurance needs unmet by private insurance”

- Provide a need unmet by private market. Some risks are considered uninsurable by the private market so coverage is not offered. The government can fulfill this need.
- To provide coverage when it is not available on the open market.
- To fulfill unmet needs of the private insurance market (insurance not available/affordable).

#### Sample Responses for “compulsory purchase of insurance”

- Mandatory coverage: for required insurance coverages, it is easier for the government to enforce these requirements.
- Compulsory insurance - When it is required for certain LOBs and consumers have the right to have it, the government feels need to provide it.
- Compulsory coverage – The government should participate because it often mandates insurance coverage.

#### Sample Responses “for convenience”

- It can be more convenient. For example, auto-enrollment means people don't have to do anything to obtain coverage. This is true for social security.
- Convenient – The government may already have facilities that can easily accommodate insurance operations.
- Convenience – In situations where there are already structures in place to do other governmental work.

#### Sample Responses “for greater efficiency” or “government expertise”

- If government has more expertise than industry, it will be more efficient (cost wise) for government to deliver insurance
- Efficiency – It may be more cost effective for government to provide the insurance.
- Greater efficiency and/or lower prices because the government doesn't have to include commission, other expenses, and profit load in prices.

- Efficient – The government has no profit load, marketing cost.

Sample Responses for “social purposes”

- Social purpose – The government may provide insurance to fulfill a social obligation.
- For a social purpose such as preventing economic disruption.
- Social responsibility – People may look to government to provide certain benefits (e.g. social security, Medicare).

Sample Responses for “regulatory purposes”

- Fair and equitable treatment of consumers. Some insurance is compulsory, and so regulation is necessary. Regulators ensure the reliability, solvency, and financial solidity of insurance institutions.
- Protect consumers by ensuring availability and affordability of coverages and that consumers are not charged excessive rates or unfair discrimination.

**Part b:** 1.5 points

Partnership with a private insurer

- TRIA
- NFIP
- Crop Coverage
- The government mandating auto liability coverage then working with insurers to set up residual markets for high risk drivers.
- FAIR Plans
- Workers’ compensation, the government sets benefit laws that insurers have to follow
- Residual windstorm/WC/auto plans

Competing with a private insurer

- Workers’ Compensation competitive state fund

Exclusive Insurer

- Social Security
- WC exclusive(monopolistic) state fund
- Unemployment insurance.
- Federal Employers Compensation Act

**EXAMINER’S REPORT**

Candidates were expected to have knowledge of a variety of reasons for government participation in insurance, and also the levels at which the government may become involved to provide insurance.

**Part a**

Candidates were expected to provide three unique reasons for government participation in insurance. Sufficient explanation was required to distinguish each reason. For example, two reasons relating to affordability could be distinguished by describing one as a need unmet by private insurance, and the other as an obligation for the government to provide affordable insurance when that insurance is compulsory.

A common mistake was providing two similar reasons, such as filling an unmet insurance need along with ensuring certain coverages are offered.

**Part b**

Candidates were expected to identify three unique levels of government involvement in the provision of insurance, and provide an appropriate example of each.

Common mistakes included:

- Providing an example that did not match the level of involvement.
- Providing “workers’ compensation” as an example with no additional words.
- Only providing two levels.

**QUESTION 8**

**TOTAL POINT VALUE: 2.75**

**LEARNING OBJECTIVE: B3**

**SAMPLE ANSWERS**

**Part a: 0.5 point**

- The rates were inadequate to cover expected losses. The Flood Insurance Reform Act of 2012 increased rate caps from 10% to 20% to help reach more adequate premiums.
- Rates were not adequate resulting in a tremendous debt. The 2012 reform increased rates, decreased subsidies, and allowed catastrophe year losses to be included with the average loss year calculations.
- The NFIP has an extremely large amount of debt owed to the Treasury. Because their rates are inadequate, the NFIP won’t be able to get rid of that debt for some time. The Flood Insurance Reform Act attempted to address this by decreasing premium subsidies so the fund could become self-sufficient.
- Premium subsidies and lower than actuarial rates resulted in the NFIP not having enough money to pay losses without accruing significant debt. The 2012 Reform Act reduced subsidies and allowed for premiums to be increased.
- One concern is lack of participation to fund the program. One way this was addressed is by increasing the penalty for lenders who fail to enforce purchase of flood insurance when it’s required.

**Part b: 0.75 point**

- People don’t understand the meaning of 100 year flood plain and that it is a 1% change of flood each year.
- Flood insurance is not seen as being worth the cost.
- Private insurers do not market NFIP policies.
- Flood maps are outdated so those that are in high flood areas are unaware